S. HRG. 98-~~244~~ 224, PT. 4

MISCELLANEOUS RECLAMATION LEGISLATION

HEARING

BEFORE THE

SUBCOMMITTEE ON WATER AND POWER

OF THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 1884

A BILL TO RELIEVE THE ELEPHANT BUTTE IRRIGATION DISTRICT OF CERTAIN REPAYMENT OBLIGATIONS, AND FOR OTHER PURPOSES

S. 1981

A BILL TO AMEND THE SMALL RECLAMATION PROJECTS ACT OF 1956, AS AMENDED

S. 2643

A BILL TO EXTEND THE SERVICE AREA FOR THE SAN LUIS UNIT OF THE CENTRAL VALLEY PROJECT, CALIFORNIA, AND FOR OTHER PURPOSES

SEPTEMBER 20, 1984

PART 4

Printed for the use of the Committee on Energy and Natural Resources

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MISCELLANEOUS RECLAMATION LEGISLATION

THURSDAY, SEPTEMBER 20, 1984

U.S. SENATE,
SUBCOMMITTEE ON WATER AND POWER,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SD–366, Dirksen Office Building, Hon. Don Nickles presiding.

Present: Senators Nickles, Domenici, Ford, and Melcher.

Also present: Russell R. Brown, professional staff member; and Craig Gannett, counsel for the minority.

OPENING STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator NICKLES. Good morning. Today's hearing before the Subcommittee on Water and Power of the Senate Committee on Energy and Natural Resources will take testimony regarding S. 1981 introduced by Senator McClure and cosponsored by Senator Wilson.

Also in today's hearing agenda are S. 1884, legislation to relieve the Elephant Butte Irrigation District of certain repayment obligations, which was introduced by Senator Domenici, and S. 2643, a bill to extend the service area for the San Luis unit of the Central Valley project, which was introduced by Senators Cranston and Wilson.

The text of these bills will be inserted in the record.

The first of these three bills, S. 1981, was introduced on October 20, 1983, and would increase the authorization ceiling for the Bureau of Reclamation's Small Reclamation Projects Program by an additional $600 million to a total of $1.2 billion. A similar measure, H.R. 4444, has been reported by the House Committee on Interior and Insular Affairs and is presently pending further action by the House.

The second bill, S. 1884, would allow the application of funds previously collected by the Elephant Butte Irrigation District toward the costs associated with displacement of Federal workers when the district assumed operation and maintenance of the project.

The third piece of legislation before us today is S. 2643 which would extend the service area of the San Luis unit of the Central Valley project to include the Pleasant Valley Water District, thereby making the district eligible to receive project water.

Today's hearing record will be open for 2 weeks for those who wish to submit additional comments.

I also ask that statements by Senator McClure, the Environmental Defense Fund, and the Navajo Nation be included in the hearing record at this point.

[The texts of S. 1981, S. 1884, and S. 2643; the prepared statement of Senator McClure; the letter from the Environmental Defense Fund; and the statement of the Navajo Nation follow:]

II

98TH CONGRESS
1ST SESSION

S. 1981

To amend the Small Reclamation Projects Act of 1956, as amended.

IN THE SENATE OF THE UNITED STATES

OCTOBER 20 (legislative day, OCTOBER 17), 1983

Mr. MCCLURE introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

---

A BILL

To amend the Small Reclamation Projects Act of 1956, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Law 84–984 is amended as follows:

In Section 10, in the first sentence after "600,000,000" insert "and, effective October 1, 1984, not to exceed an additional $600,000,000".

O

II

98TH CONGRESS
1ST SESSION

S. 1884

To relieve the Elephant Butte Irrigation District of certain repayment obligations, and for other purposes.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 23 (legislative day, SEPTEMBER 19), 1983

Mr. DOMENICI introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

---

A BILL

To relieve the Elephant Butte Irrigation District of certain repayment obligations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to relieve the Elephant Butte Irrigation District of any obligation to reimburse the Bureau of Reclamation for leave and severance payments to certain employees of the Rio Grande project separated as a result of the transfer of operation and maintenance responsibilities of the Elephant Butte Irrigation District, revenues from the reclamation fund creditable to the Elephant Butte Irrigation District but deferred for application against future repayment obligations of

★(Star Print)

the district are hereby made available immediately for appropriate credit to the Bureau of Reclamation appropriations. Any surplus funds over and above those needed to meet any severance and annual leave obligations of the Elephant Butte Irrigation District and any future revenue of said district which would be creditable to the reclamation fund shall be used to reduce the Elephant Butte Irrigation District's obligation for payment of operation and maintenance expenses incurred by the Bureau of Reclamation and chargeable to the district.

O

II

98TH CONGRESS
2D SESSION

S. 2643

To extend the service area for the San Luis unit of the Central Valley project, California, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 8 (legislative day, APRIL 30), 1984

Mr. CRANSTON (for himself and Mr. WILSON) introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

---

A BILL

To extend the service area for the San Luis unit of the Central Valley project, California, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1(a) of the Act of June 3, 1960 (Public Law 86–488; 74 Stat. 156), is amended by inserting in the first sentence thereof after the word "California," the phrase "and the area within the boundaries of the Pleasant Valley Water District in Fresno County, California, as such boundaries now exist or as they may be changed from time to time in accordance with applicable State law and as approved by the Secretary of the Interior".

SEC. 2. Section 8 of the act of June 3, 1960 (Public Law 86–488; 74 Stat. 160), is amended by inserting after the last sentence thereof the phrase ": *Provided further,* That the work to be undertaken pursuant to the first section of this Act in the Pleasant Valley Water District may be financed in accordance with the act of July 4, 1955 (Public Law 84–130; 69 Stat. 245), as amended".

○

STATEMENT OF SENATOR McCLURE
SEPTEMBER 20, 1984

I WOULD LIKE TO EXPRESS MY APPRECIATION TO CHAIRMAN NICKLES FOR SCHEDULING A HEARING ON S. 1981, MY BILL TO AMEND THE SMALL RECLAMATION PROJECTS ACT TO INCREASE THE AUTHORIZATION BY $600 MILLION TO A TOTAL AUTHORIZED CEILING OF $1.2 BILLION.

I THINK IT WOULD BE APPROPRIATE TO CLARIFY RIGHT FROM THE START, THAT BECAUSE OF THE WAY THE ORIGINAL 1956 ACT WAS WRITTEN, FUNDS PAID BACK TO THE GOVERNMENT ARE NOT REFLECTED IN THE AUTHORIZATION CEILING IN THE ACT. BECAUSE THESE FUNDS ARE NOT CREDITED TO THE PROGRAM, IT BECOMES NECESSARY FROM TIME TO TIME TO INCREASE THE AUTHORIZATION CEILING. APPROXIMATELY 97% OF THE FUNDS MADE AVAILABLE PURSUANT TO THE ACT ARE IN THE FORM OF LOANS WHICH ARE PAID BACK, PORTIONS OF WHICH ARE RETURNED WITH INTEREST. THERE HAS NEVER BEEN A DEFAULT IN THE HISTORY OF THE PROGRAM.

AS AUTHORIZED BY THE SMALL RECLAMATION PROJECTS ACT OF 1956, THE PROGRAM HAS PROVEN TO BE A VALUABLE TOOL IN FILLING THE GAP BETWEEN AUTHORIZED BUREAU OF RECLAMATION PROJECTS AND THOSE PROJECTS FOR WHICH NON-FEDERAL ENTITIES ARE ABLE TO SECURE FUNDING ON THE OPEN MARKET. THE PROGRAM HAS CONTRIBUTED GREATLY TO WATER CONSERVATION EFFORTS AS MANY OF THE LOANS HAVE BEEN GRANTED TO UP-DATE OLDER IRRIGATION SYSTEMS TO MODERN DAY STANDARDS.

I FULLY REALIZE THE LATENESS IN THIS SESSION OF CONGRESS, AND THE LITTLE TIME REMAINING; HOWEVER, I AM STILL HOPEFUL THAT S. 1981 OR A HOUSE PASSED COMPANION MEASURE MAY RECEIVE CONSIDERATION BY THE SENATE PRIOR TO ADJOURNMENT.

ENVIRONMENTAL DEFENSE FUND

August 20, 1984

Hon. Alan Cranston
United States Senate
SH-112 Hart Building
Washington, D.C. 20510

Dear Senator Cranston:

We write in opposition to your S. 2643, which would extend the service area of the San Luis Unit of the Central Valley Project to include the lands of the Pleasant Valley Water District (PVWD) and which would remove any legal obstacles that may exist to the PVWD's obtaining a subsidized loan from the Bureau of Reclamation under P.L. 84-130 to construct a local system for distribution of the supplemental surface water it is projected the Bureau would be supplying.

Our reasons for opposition are many; specifics follow. Our principal basis for opposition, however, is easy to state. It is to the piecemeal approach of the bill and to the expedited special treatment which the bill now provides to one district (half of the land of which is owned by one corporation, Standard Oil of California), while numerous other water issues of much greater importance, that should be solved before new commitments of the state's scarce surface waters are made, languish for lack of interest in their resolution by either Congress or the Federal Administration. George Will, in a brillantly insightful column, recently criticized the Senate for the "antic haste" with which it raced to assure that the power from Hoover Dam would continue to be given away to a select group of beneficiaries for the thirty years beginning April 1, 1987. Your Pleasant Valley bill invites similar censure.

Among its specific problems are:

(1) Its expansion of the San Luis Unit service area flies directly in the face of the recommendations of the San Luis Unit Task Force Report (sponsored and written by Democratic Administrations in both Washington, D.C. and Sacramento) that water quality in the Bay/Delta complex be assured as a precondition for curing the illegal expansion of the San Luis Unit service area by the Bureau of Reclamation and before any new commitment of water for export was made.

2606 Dwight Way Berkeley, California 94704 ☎ 415-548-8906
OFFICES IN: NEW YORK, NY (NATIONAL HEADQUARTERS), WASHINGTON, DC, BERKELEY, CA; DENVER, CO

(2) It will probably give one corporation, Standard of California, that hardly needs the help, a substantial subsidy. Whatever assurances are given that Standard will sell its land subject to recordable contract under the Reclamation laws, the massive abuses that have long characterized the history of the Bureau's enforcement of acreage limitations give scant confidence that in selling its land Standard will not profit from the prospect of the District's receiving a new firm surface water supply. On the other hand, the District's own consultant projects only a very thin margin between the cost of new delivered water and its value to Pleasant Valley farmers, so the chances are high that the purchasers of Standard's interest will soon be looking to the United States for still more subsidies to maintain their operation.

(3) One of the key economic justifications for the bill is that it will allow significantly more cotton to be grown in the Pleasant Valley. As you know, cotton is already in surplus, suffering from overproduction. The Department of Agriculture recently released a report criticizing the inconsistencies among the Congress' various subsidy policies. Do you really believe that it makes sense to subsidize the growing of cotton with one government program while another government program attempts to discourage its overproduction?

(4) Additional assumptions underlying the District's economic projections are that its average water duty will increase from 1.7 to 2.9 acre feet per acre and that farmers will abandon their current conservation practices (including sprinkler irrigation) for more intensive water application practices (presumably furrow and flood). Is this the water use policy Congress should be encouraging in the modern era? Instead of new Congressional irrigation subsidies, shouldn't Congress be advocating a freer market in water rights as EDF has recommended elsewhere?

(5) The District projects that it will pay the Bureau (and Department of Water Resources—for wheeling privileges) a combined $31 per acre foot. At a time when new water development in California costs several hundred dollars per acre foot, what justifies this subsidy?

(6) While your bill does not include a provision to have the Bureau develop a plan to supply the Mid-Valley Canal service area with supplemental northern California water, the companion bill to yours introduced in the House by Congressmen Coelho, H.R. 5836, does contain such a provision. Given the way in which Congressional bills have a tendency to gather amendments in the last hectic weeks of a two year session, this is not reassuring.

The foregoing is an abbreviated list, but one key fact is worth reemphasizing. It has now been six and a half years since the San Luis Unit Task Force delivered its recommendations. The conclusion EDF draws from this fact is that it is high time for Congress to act on the Task Force's recommendations. Your alternative--to ignore the Task Force's recommendations and instead to enrich one corporation at the expense of both federal taxpayers and the Bay/Delta estuary--is unacceptable.

Sincerely yours,

Thomas J. Graff
Senior Attorney

cc: Senator Pete Wilson
Congressman Tony Coelho
Congressman Charles Pashayan

TJG:mjg

TESTIMONY OF THE NAVAJO NATION
IN SUPPORT OF SENATE BILL S 1981,
TO AMEND THE SMALL RECLAMATION PROJECTS
ACT OF 1956, P.L. 84-984

The Navajo Nation, which includes 160,000 people on 17,000 acres of predominantly arid and semi-arid land covering portions of Arizona, New Mexico, and Utah has always been dependent for survival on the use of marginal lands and scarce water resources. Despite the income from mineral resources presently being extracted by outside corporations, the majority of the people of the Navajo Nation today remain isolated in rural poverty, with living conditions similar to pre-Depression era rural America. Under the trusteeship of the Bureau of Indian Affairs for the past century, the Navajo Nation has been passed over by the multitude of Federal rural development subsidies, including programs for resource conservation, extension services, farm production credit, and land reclamation, which have contributed so greatly to the establishment of America as the bread-basket of the world.

Today, the leadership of the Navajo Nation has formulated and is implementing a rural development strategy based on the comprehensive conservation, development, and management of renewable natural resources, to permit the successful establishment of economically viable crop and livestock production, and related agricultural enterprises. This strategy recognizes very clearly the essential roles of the U.S. Department of Agriculture, and the Bureau of Reclamation, in the realization of the productive potential of America's arid lands. The Navajo Nation is determined to gain equal access to those Federal support programs so long available to the rest of the United States.

Building institutional and programmatic rural development support systems tailored to the unique cultural and political identity of the Navajo People is

not an easy task. Many federal programs born during the "golden age" of rural development legislation, between 1920 and 1940, have today lost much of their original intensity and vision, largely due to the general feeling of having accomplished their missions. Programs once dedicated to impoverished rural peoples now mostly serve large corporate and agri-business clients. Few extension service, land grant institute, or rural credit program personnel today understand the needs of developing economics - as is understandable, for most of the United States is indeed very highly developed.

It is of great concern to the Navajo People in particular, and to Native Americans in general, when Federal programs long beneficial to rural America at large are cut back or underfinanced, just as Native Americans are in the process of finally gaining long overdue access to such assistance. The immediate case in point is the Bureau of Reclamation's Small Reclamation Projects Act, P.L. 84-984.

Present loans and pending loan applications for irrigation project improvement and development under P.L. 84-984 exceed the existing appropriation ceiling of $600 million. The Navajo Nation is now submitting an application for such loan funds, to rehabilitate and develop 6,000 acres of irrigated farm land.

This initiative is of great importance to the economic self-reliance of the Navajo People, and represents only the third Native American Small Reclamation Project ever planned, out of a potential of more than 150 Western Tribes whose homelands are arid and unproductive without irrigation water.

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Much is heard, year after year, about the sorry condition of reservation economies, about the all-too-familiar litany of social, cultural, and economic oppression and misery plaguing Native American People. It is becoming recognized that successful economic development on reservations must include the careful and balanced provision of physical and infrastructure as well as technical assistance and production credit financing — just as these elements have been provided systematically to the rest of the American rural communities.

The Small Reclamation Projects Act loan funds have only in the past few years become available to Native Americans and yet a majority live on lands incapable of supporting more rudimentary subsistence agriculture without — irrigation water. Without economic agriculture in the arid west, there is little hope for sustainable economic development and self-determination of Native American Peoples. The proposed expansion of the Small Reclamation Project appropriation ceiling is of immediate importance to the well-being and future prosperity of a majority of Native American Peoples. The Navajo Nation supports the increase by $600 million of the appropriation ceiling for P.L. 84-984, the Small Reclamation Projects Act of 1956.

Senator NICKLES. Senator Cranston, I see that you are here and I appreciate your appearance before this committee.

I see that your colleague, Senator Wilson, is also here, so you can proceed.

STATEMENT BY HON. ALAN CRANSTON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator CRANSTON. Thank you very much, Mr. Chairman. Good morning, Pete.

Senator WILSON. Hi, Alan.

Senator CRANSTON. I am pleased to have this opportunity to appear along with Senator Wilson before the Water and Power Subcommittee to testify in support of S. 2643, legislation that the two of us have introduced, to extend the service area for the San Luis unit of the Central Valley project in California.

Specifically the bill includes the Pleasant Valley Water District land in Fresno County in the San Luis unit service area. It also makes clear that the Pleasant Valley Water District has the right to apply for a loan under Public Law 84-130 if funds are available under that program.

The Pleasant Valley Water District comprises approximately 38,000 acres in the agriculturally rich San Joaquin Valley near Coalinga. The land has been farmed since the early 1900's using ground water for irrigation. The ground water, however, has been

dropping and losing quality at such a rate that the area could return to desert within another generation.

This situation combined with the devastating earthquake in Coalinga in May 1983, which damaged the district's pipes and wells raises a serious question as to whether the area can survive, but if Pleasant Valley can proceed to construct a water distribution system, the opportunity and stimulus for Coalinga's rebirth as a productive area should be at hand.

In the past it has not been feasible for the Pleasant Valley Water District to build the needed distribution system because of the lack of participation by Standard Oil of California. The company owns almost half of the land in the district—17,000 acres—far exceeding the acreage limitation under Federal reclamation law.

In October 1983, however, Standard agreed to sell its excess lands under recordable contracts contingent upon its being able to retain its mineral rights, thereby enabling the district to seek Federal irrigation water. Since excess lands must be sold at a price that does not reflect the benefit of Federal water, there will be no economic benefit or subsidy to Standard Oil should Pleasant Valley ultimately receive Federal project money.

Water for Pleasant Valley would come from facilities of the Central Valley project in northern California through the delta down the California aqueduct to the San Luis Reservoir. For a number of years, the Department of the Interior and the State of California have been in disagreement about how much of this water is needed to ensure delta water quality. Only when agreement is reached on the delta water needs will Pleasant Valley and other districts be able to request a firm supply of any available water, but without being in the service area of the San Luis unit, the district cannot even do the preliminary work with the Bureau of Reclamation to begin the distribution system program.

This legislation will permit the Pleasant Valley Water District to do this necessary planning to enter into an agreement with the Bureau of Reclamation for a permanent water supply when it is available. It does not give Pleasant Valley any priority for that water or any advantage over other districts within the service area of the San Luis unit. Thus I hope that members of the subcommittee will be able to support S. 2643 and find a way to move this legislation this year.

Mr. Chairman, I would also like to add, briefly to add a word of support for S. 1981, legislation increasing the authorization for the Small Reclamation Projects Act Program. Specifically the bill adds $600 million to the existing authorization of $600 million for this Bureau of Reclamation program. I hope the subcommittee will approve legislation increasing funding for the Small Reclamation Projects Act Program.

Thank you very much.

[The prepared statement of Senator Cranston follows:]

STATEMENT BY SENATOR ALAN CRANSTON BEFORE THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE SUBCOMMITTEE ON WATER AND POWER IN SUPPORT OF S. 2643, A BILL TO EXTEND THE SERVICE AREA OF THE SAN LUIS UNIT OF THE CENTRAL VALLEY PROJECT, CALIFORNIA

September 20, 1984

Mr. Chairman, I'm pleased to have this opportunity to appear before the Water and Power Subcommittee to testify in support of S. 2643, legislation I've introduced with my good colleague from California, Senator Wilson, to extend the service area for the San Luis Unit of the Central Valley Project in California. Specifically, the bill includes the Pleasant Valley Water District lands in Fresno County in the San Luis Unit service area. It also makes clear that the Pleasant Valley Water District has the right to apply for a loan under Public Law 84-130 if funds are available under that program.

The Pleasant Valley Water District comprises approximately 38,000 acres in the agriculturally rich San Joaquin Valley near Coalinga. The land has been farmed since the early 1900s using groundwater for irrigation. The groundwater, however, has been dropping and losing quality at such a rate that the area could return to desert within another generation. This situation combined with the devastating earthquake in Coalinga in May 1983 which damaged the district's pipes and wells raises a serious question as to whether the area can survive. But if Pleasant Valley can proceed to construct a water distribution system, the opportunity and stimulus for Coalinga's rebirth as a productive area should be at hand.

In the past it has not been feasible for the Pleasant Valley Water District to build the needed distribution system because of the lack of participation by Standard Oil of California. The company owns almost half of the land in the district -- 17,000 acres -- far exceeding the acreage limitation under Federal Reclamation Law. In October 1983, however, Standard agreed to sell its excess lands under recordable contracts -- contingent upon its being able to retain its mineral rights -- thereby enabling the district to seek federal irrigation water. Since excess lands must be sold at a price that does not reflect the benefit of federal water, there will be no economic benefit or subsidy to Standard Oil should Pleasant Valley ultimately receive federal project water.

Water for Pleasant Valley would come from facilities of the Central Valley Project in northern California through the Delta down the California Aqueduct to the San Luis Reservoir. For a number of years the Department of the Interior and the State of California have been in disagreement about how much of this water is needed to insure Delta water quality. Only when agreement is reached on the Delta water needs will Pleasant Valley and other districts be able to request a firm supply of any available water. But without being in the service area of the San Luis Unit, the district cannot even do the preliminary work with the Bureau of Reclamation to begin the distribution system program. This legislation will permit the Pleasant Valley Water District to do this necessary planning to enter into an agreement with the Bureau of Reclamation for a permanent water supply when it is

available. It does not give Pleasant Valley any priority for that water or any advantage over other districts within the service area of the San Luis Unit.

Thus I hope the members of the Subcommittee will be able to support S. 2643 and find a way to move this legislation this year.

Mr. Chairman, I would also like to add a word of support for S. 1981, legislation increasing the authorization for the Small Reclamation Projects Act program. Specifically, the bill adds $600 million to the existing authorization of $600 million for this Bureau of Reclamation program.

The small projects program has been a very successful program in my state. The loan program has been extensively used by local water agencies in California and has made it possible for these agencies to make better use of water resources available to them. The projects have played an important role in the development of local economies.

There is a real need for this legislation as funds available under the existing authorization will be exhausted shortly. At the same time, there are quite a few local water agencies that have indicated an interest in applying for small reclamation project funds. In California alone, Atwell Island Water District, Big Bear Municipal Water District, Browns Valley Irrigation District,

Central San Joaquin Water Conservancy District, Eastern Municipal Water District, Los Carneros Water District, Monterey County Flood Control and Water Conservation District, Olivenhain Municipal Water District, Pixley Irrigation District, Rancho California Water District, Reclamation District No. 1001, San Juan Suburban Water District, San Sevaine Creek Project, Santa Ana Watershed Project Authority, and Stockton-East Water District have filed notices of intent of submitting applications under this program. Given this demand, I hope the Subcommittee will approve legislation increasing funding for the Small Reclamation Projects Act program.

Senator NICKLES. Thank you very much, Senator Cranston. We appreciate your testimony before the committee, especially this early in the morning.

Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator WILSON. Thank you very much, Mr. Chairman. First, I am very grateful to you as I know my colleague is for managing to find the time in these closing days of this busy schedule to have these hearings.

There is very little I can add to what Senator Cranston has said. I would simply reaffirm that and also emphasize the point that he made that this does not give any priority. It simply creates the opportunity now for Pleasant Valley to participate and then to negotiate really with the Bureau of Reclamation for a firm water supply and also for the method of financing of the distribution system, and Congress will still have to approve construction of any additional distribution systems within the district, so really this authorization allows them, as he said, somewhere to begin.

And the other point that I would emphasize which I think he underlined very correctly is that without this, it is highly questionable whether this area which has been so hard hit by the Coalinga earthquake can make the kind of effort that is necessary for its economic survival.

I also would urge your support, as did he, of S. 1981, the bill to amend the Small Reclamation Act. I am grateful that you set aside time for this legislation. The effect of S. 1981 as the committee is fully aware would be to add another $600 million to the amount available now for implementation of the Small Reclamation Projects Act. I enthusiastically urge your support of this additional funding, and as you are aware, that the grants, though authorized, are rarely what occurs. This is more accurately a loan program, and I think should continue to be. Fully 97 percent of all moneys that have been made available under the Small Reclamation

Projects Act since 1956 have been in the form of loans. I would anticipate that that would continue, and as I say, I think it should.

Clearly California has been a major beneficiary of this program. I think it makes sense when considering that much of agriculture in California is dependent on extensive irrigation systems. Irrigation has been given favored treatment in the law, and I think for reasons that are clear through the legislative history. There was an effort to try to make available to agriculture the kind of interest-free funding that would allow these projects which might not otherwise be able to go forward to do so because of the importance that was attached to the Nation's food supply and the opportunity that was available to turn what literally would be desert without irrigation into very productive land.

I would hope that the committee as it appears to be will act expeditiously on this legislation because it will allow those who are dependent upon this badly needed water to go forward with the planning.

There is some suggestion that there can be a delay with regard to this authorization. I would suggest that is not the way that we should proceed. If we wait until fiscal year 1986, it will prevent the loan applicants from 2 or 3 years that is required for them to complete the kind of engineering feasibility reports that will really allow them to proceed with the distribution as early as they need to do it.

In order to keep these small reclamation projects on track, I think Congress needs to act now to allow the potential loan applicants to plan for fiscal year 1986 and beyond.

Mr. Chairman, I am mindful of your time, and I think you understand well what the legislation does. I am here really to emphasize its importance.

I would be happy to answer any questions on either S. 1981 or on the Pleasant Valley legislation.

[The prepared statements of Senator Wilson follow:]

TESTIMONY BY THE HONORABLE PETE WILSON
SENATOR FROM CALIFORNIA
BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
IN SUPPORT OF S. 2643
SEPTEMBER 20, 1984, 10:00 A.M., SD-366

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE, I AM PLEASED THAT THE COMMITTEE HAS GIVEN ME AN OPPORTUNITY TO URGE APPROVAL OF S. 2643. THIS BILL WOULD EXTEND THE SERVICE AREA FOR THE SAN LUIS UNIT OF THE CENTRAL VALLEY PROJECT IN CALIFORNIA TO INCLUDE THE PLEASANT VALLEY WATER DISTRICT. THIS DISTRICT IS LOCATED IN WESTERN FRESNO COUNTY WHERE FARMING FORMS THE MAIN ECONOMIC BASE. WITHOUT THIS PROJECT IT IS QUESTIONABLE WHETHER THE ECONOMY CAN SURVIVE, PARTICULARLY AFTER AN EARTHQUAKE LAST YEAR WHICH DEVASTATED THE TOWN OF COALINGA WHICH IS LOCATED IN THE DISTRICT.

THE PLEASANT VALLEY AREA HAS BEEN FARMED SINCE THE EARLY 1900S USING GROUNDWATER FOR IRRIGATION. NOW, THAT GROUNDWATER IS ABOUT TO GIVE OUT, THE WATER LEVEL IS DROPPING AND LOSING QUALITY AT SUCH A RATE THAT THE AREA COULD RETURN TO DESERT, POSSIBLY WITHIN A GENERATION. PLEASANT VALLEY WATER DISTRICT WAS PLANNED ORIGINALLY TO BE PART OF THE SAN LUIS UNIT AND A BRANCH OF THE CALIFORNIA AQUEDUCT WAS CONSTRUCTED FOR THIS PURPOSE DURING THE LATE 1960S. THE DISTRIBUTION SYSTEM WITHIN THE DISTRICT, HOWEVER, WAS NEVER AUTHORIZED, PRIMARILY BECAUSE THE STANDARD OIL COMPANY OF CALIFORNIA (NOW CHEVRON CORPORATION) WHICH WAS ALMOST HALF OF THE ACREAGE IN THE DISTRICT -- 17,000 ACRES -- WOULD NOT PARTICIPATE. IN ORDER TO QUALIFY ITS PROPERTY FOR WATER FROM THE CENTRAL VALLEY PROJECT, IT MUST AGREE TO SELL ITS LANDS IN EXCESS OF THAT PERMITTED BY FEDERAL RECLAMATION LAW.

AFTER THE EARTHQUAKE IN THE AREA, THE COMPANY HAS NOW AGREED TO PARTICIPATE IN THE PROJECT.

THE CENTRAL VALLEY PROJECT IN CALIFORNIA TAKES WATER FROM THE SACRAMENTO/SAN JOAQUIN RIVER DELTA TO THE CALIFORNIA AQUEDUCT AND THEN TO THE PLEASANT VALLEY CANAL. SINCE THE MID 1970S, A MORATORIUM ON THE SALE OF WATER HAS BEEN IN EFFECT AS FIRST IMPOSED BY SECRETARY OF INTERIOR ANDRUS. COMPLICATING THIS SITUATION, RECENT LITIGATION HAS SURFACED ABOUT HOW MUCH OF THIS WATER IS NEEDED TO INSURE DELTA WATER QUALITY STANDARDS. NO NEW WATER HAS BEEN SOLD ON PERMAMENT CONTRACTS. ONLY WHEN ALL OF THESE MATTERS HAVE BEEN SETTLED WILL PLEASANT VALLEY AND OTHER DISTRICTS BE ABLE TO CONTRACT FOR A FIRM SUPPLY OF WATER WHICH JUSTIFY A REPAYMENT PROGRAM FOR THE DISTRIBUTION SYSTEM. PLEASANT VALLEY CANNOT EVEN START THE CONTRACT NEGOTIATIONS WITH THE BUREAU OF RECLAMATION UNTIL IT IS A PART OF THE SERVICE AREA OF THE SAN LUIS UNIT. IT DOES NOT GIVE PLEASANT VALLEY ANY PRIORITY FOR THAT WATER OR ANY ADVANTAGE OVER OTHER DISTRICTS WITHIN THE SERVICE AREA OF THE SAN LUIS UNIT.

THIS LEGISLATION WILL ONLY PROVIDE PLEASANT VALLEY WITH THE FIRST STEP. IT WILL BE NECESSARY FOR THE DISTRICT TO NEGOTIATE WITH THE BUREAU OF RECLAMATION FOR A FIRM WATER SUPPLY AND METHOD OF FINANCING THE DISTRIBUTION SYSTEM. CONGRESS WILL STILL HAVE TO APPROVE THE CONSTRUCTION OF ANY ADDITIONAL DISTRIBUTION SYSTEMS IN THE SAN LUIS DISTRICT OF WHICH PLEASANT VALLEY WILL BE A PART. WE HAVE CAREFULLY PROVIDED THAT IN FAIRNESS TO THE OTHER POTENTIAL CUSTOMERS OF CVP WATER, THIS LEGISLATION WOULD NOT GIVE PLEASANT VALLEY A PRIORITY POSITION.

THIS LEGISLATION WILL DO NO MORE THAN LET THE DISTRICT GET INTO THE BALL GAME.

THE PEOPLE OF COALINGA AND THE PLEASANT VALLEY DESERVE A CHANCE TO WORK WITH THE UNITED STATES TO SAVE THEIR ECONOMY. THIS BILL WOULD GIVE THEM A START.

STATEMENT BY THE HONORABLE PETE WILSON
SENATOR FROM CALIFORNIA
BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

S. 1981, A BILL TO AMEND
THE SMALL RECLAMATION PROJECTS ACT OF 1981

SEPTEMBER 20, 1984

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM GRATEFUL FOR THE TIME YOU HAVE SET ASIDE FOR CONSIDERATION OF S. 1981, A BILL TO AMEND THE SMALL RECLAMATION PROJECTS ACT OF 1956 AND S. 2643 A BILL TO EXTEND THE SERVICE AREA FOR THE SAN LUIS UNIT OF THE CENTRAL VALLEY PROJECT, CALIFORNIA. I AM PAINFULLY AWARE OF THE MANY DEMANDS ON YOU AND THE COMMITTEE DURING THESE CLOSING DAYS OF THE 98TH CONGRESS AND AM THEREFORE FULLY APPRECIATIVE OF YOUR WILLINGNESS TO HEAR THIS ISSUE.

THE EFFECT OF S. 1981, AS THE COMMITTEE IS WELL AWARE, IS TO RAISE BY $600 MILLION THE AMOUNT OF MONEY AVAILABLE FOR THE IMPLEMENTATION OF THE SMALL RECLAMATIONS PROJECTS ACT. I HAVE ENTHUSIASTICALLY COSPONSORED THIS BILL AND HOPE THAT IT WILL BE RECEIVED FAVORABLY BY THIS COMMITTEE.

THIS PROGRAM, FOR ALL INTENTS AND PURPOSES, IS A LOAN PROGRAM. WHILE GRANTS ARE AUTHORIZED, FULLY 97 PERCENT OF ALL MONIES THAT HAVE BEEN MADE AVAILABLE UNDER THE SMALL RECLAMATION PROJECTS ACT SINCE 1956 HAVE BEEN IN THE FORM OF LOANS. IT IS WIDELY ANTICIPATED THAT THIS TREND WILL CONTINUE WITH THE NEW FUNDS PROPOSED TO BE AUTHORIZED BY S. 1981. I THINK WE IN CONGRESS SHOULD ENCOURAGE THIS KIND OF AID -- LOANS, NOT GRANTS -- WHERE POSSIBLE.

IT IS NO SECRET THAT CALIFORNIA IS A MAJOR BENEFICIARY OF THIS PROGRAM. THIS MAKES SENSE WHEN IT IS CONSIDERED THAT MUCH AGRICULTURE IN CALIFORNIA IS DEPENDENT ON EXTENSIVE IRRIGATION SYSTEMS. MAKING AN ADDITIONAL $600 MILLION AVAILABLE FOR WHAT ARE IN LARGE PART IRRIGATION PROJECT LOANS ASSURES A CONTINUED FLOW OF REIMBURSABLE FUNDS TO MAINTAIN THIS THRIVING INDUSTRY.

FAILING TO ACT EXPEDITIOUSLY ON THIS LEGISLATION WILL CREATE PLANNING PROBLEMS IN CALIFORNIA AND THE SIXTEEN OTHER RECLAMATION STATES. THE BUREAU OF RECLAMATION INFORMS ME THAT WHILE LESS THAN $300 MILLION OF THE EXISTING $600 MILLION LOAN AUTHORITY HAS ACTUALLY BEEN OBLIGATED, THE APPROVAL OF EXISTING APPLICATIONS WILL LIKELY CAUSE THE OBLIGATION OF THE REMAINING MONIES BY FY 1986.

BUT WE CAN'T WAIT UNTIL FY 86 TO REAUTHORIZE THIS PROGRAM. LOAN APPLICANTS REQUIRE TWO OR THREE YEARS TO COMPLETE ENGINEERING FEASIBILITY REPORTS -- COSTING UP TO SEVERAL HUNDRED THOUSAND DOLLARS A PIECE -- BEFORE THEY CAN EVEN FILE AN APPLICATION FOR A LOAN. IN ORDER TO KEEP THE SMALL RECLAMATION PROJECTS ACT ON TRACK, CONGRESS NEEDS TO ACT NOW TO ALLOW POTENTIAL LOAN APPLICANTS TO PLAN FOR FY 86 AND BEYOND.

As a preemptive response to those few who would criticize the Small Reclamation Projects Act as another federal government giveaway, I would like to make a few pointed remarks.

First, the bulk of the monies authorized by S. 1981 will be used for loans -- not grants -- and not one Small Projects loan has been defaulted since inception of this program in 1956. This remarkable record can in large part be attributed to stringent loan requirements developed by the Office of Management and Budget in 1974 and adopted since by both the Carter and Reagan Administrations.

Second, the interest-free loans that are made for irrigation project purposes continue the fine federal tradition of subsidizing needed economic infrastructure improvements. Most of the loans to date have been used to rehabilitate existing irrigation systems benefitting hundreds of farmers. The plain fact is that many of these irrigation system improvements would not be affordable were interest payments required. As it is, the Bureau informs me that many project applications are rejected because the applicant can't afford to repay the principal on the loan in a reasonable period of time, much less any accrued interest California, for its part, needs an extensive irrigation system infrastructure to sustain its highly productive agriculture economy with all the jobs and federal tax revenues attendant to that status.

FINALLY, THE SMALL RECLAMATION PROJECT ACT HAS LONG EMBODIED THE CONCEPT OF LOCAL COST-SHARING, AN OLD IDEA THAT HAS BEEN MADE POPULAR ONCE AGAIN BY THE PRESENT ADMINISTRATION. ONE OF THE STRENGTHS OF THE SMALL PROJECTS PROGRAM HAS BEEN THE SUCCESS THE BUREAU OF RECLAMATION HAS HAD IN SECURING LOCAL COST-SHARE COMMITMENTS. SINCE 1974, LOCAL SHARES HAVE AVERAGED 20 PERCENT OF TOTAL PROJECT COSTS AND RANGE AS HIGH AS 35 TO 40 PERCENT FOR SINGLE-PURPOSE IRRIGATION SYSTEM PROJECTS.

I AM NOT CONVINCED, AS SOME APPEAR TO BE, THAT IT IS NECESSARY TO CODIFY A MINIMUM COST-SHARE REQUIREMENT. WHY SHOULD WE TIE THE BUREAU'S HANDS IN THEIR FINANCE NEGOTIATIONS WITH PROJECT APPLICANTS WHEN THE BUREAU HAS ALREADY PROVEN ADEPT AT SECURING LOCAL FINANCING? I THINK IT MORE APPROPRIATE TO ALLOW THE BUREAU TO CONTINUE ITS CASE-BY-CASE APPROACH TO THE HUNDREDS OF SMALL PROJECT APPLICATIONS THAT IT RECEIVES.

IN SUM, THIS PROGRAM IS NOT A FEDERAL GIVEAWAY, IT IS FOR THE MOST PART A LOAN PROGRAM THAT REQUIRES SIGNIFICANT UP-FRONT FINANCING AND COST SHARE COMMITMENTS FROM THE PROJECT APPLICANTS. S. 1981 IS NEEDED TO CONTINUE THIS HIGHLY SUCCESSFUL PROGRAM AND HELP KEEP THE AGRICULTURE ECONOMIC INFRASTRUCTURE OF THIS COUNTRY INTACT.

NOW I WOULD, AGAIN, OFFER MY SINCERE THANKS TO YOU FOR TAKING THE TIME TO HEAR THESE ISSUE AND I HOPE THAT WE WILL BE ABLE TO SUCCESSFULLY PASS THIS LEGISLATION IN THESE CLOSING DAYS OF THIS CONGRESS.

Senator NICKLES. Senator Wilson, I appreciate your appearance before the committee and also your repeated urgings to myself and to our staff to have these hearings, and it is as a result of your insistence and persistence I guess that we are having these hearings this morning.

Senator Domenici, did you have any comments or questions?

Senator DOMENICI. I have none of the Senators on their matters. I just thank the distinguished Senators from California for their testimony.

Senator NICKLES. Senator, thank you very much for your appearance this morning.

Senator WILSON. Thank you, Mr. Chairman.

Senator NICKLES. Senator Domenici, did you have any opening comments?

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator DOMENICI. Mr. Chairman, I can't remain for the entire hearing, but I would like just to make a couple of remarks about S. 1884.

In the process of commenting I obviously want to thank you for adding this legislation to the agenda. It is obviously in some ways a very minor matter in light of the issues we face and the issues you face on this committee, but to the members of the Elephant Butte Irrigation District it is extremely important.

We had hoped that for a matter which the audit now reveals is $61,000 that we could have solved it administratively, but apparently we can't. This irrigation district took over the operation of the district in 1979, and after repaying all of the obligations to the Federal Government under the provisions of the act, when they took over they were required to pay severance pay and other costs associated with the change in management.

The district maintained several funds which contained money from the sale and leasing of lands held within the Rio Grande project. For the most part, this amounted to allowing cattlemen to graze cattle on land that borders on the Rio Grande. The district has been attempting to use money from those funds to repay the Bureau of Reclamation for the costs associated with the severance of former employees as they made the change from Federal Government to Elephant Butte Irrigation District management.

The Department states that we must have a law change or at least legislation that would permit that transfer to repay the costs, yet we owe the costs. We have the money, but it is in another fund rather than the one that they believe the law presently authorized them to use. We paid off, they are paying off all of the costs of the initial construction. That was the original intent. There is still money left over.

All this legislation will do is allow the small bookkeeping transaction to go forward. I do want to correct the number. We said about 50,000. In working with the Department, it now seems it is about 61. Before we mark up, if that is the chairman's pleasure, and the full committee's pleasure, we will have the exact number.

I would hope that we could relieve this small district of this burdensome problem before the session is over, and if you will help us, I think we can. They are going to testify, the Federal Government's people, and I think they are going to agree with a few changes in the legislation that we could, can proceed, so I thank you for holding the hearing. It has got us this far and we will finish it soon. I appreciate it.

Senator NICKLES. Senator, we are happy to accommodate you, and again I appreciate your persistence in bringing this before the Senate. I hope we can get it taken care of in the waning days of this session. Thank you very much.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator NICKLES. Our next and first panelist is Robert Olson, Acting Commissioner of the Bureau of Reclamation.

Mr. Olson, welcome. You have been before this committee several times, and we appreciate that, and we appreciate your appearance this morning.

Commissioner OLSON. Mr. Chairman, do you have an order in which you would like to have me proceed as far as the legislation or testimony is concerned?

Senator NICKLES. Well, it doesn't make a lot of difference. You can take the small reclamation projects, Senator Domenici's bill, and then the Central Valley project.

Commissioner OLSON. Thank you very much, sir.

STATEMENT OF HON. ROBERT A. OLSON, ACTING COMMISSIONER, BUREAU OF RECLAMATION, DEPARTMENT OF THE INTERIOR, ON S. 1981

Commissioner OLSON. Thank you very much.

Mr. Chairman, on behalf of the Department of the Interior, I am pleased to appear here today to comment on S. 1981 which would amend the Small Reclamation Projects Act to increase the appropriation ceiling by $600 million.

With one amendment which would change the interest rate formula, we do recommend enactment of S. 1981 and its companion bill, H.R. 4444. An increase in the authorized ceiling will allow us to operate the program for a number of years without any additional authorizations. The authorization of an increased ceiling is vital to continue the orderly planning and loan approval process of these small but very important projects.

The applicants, who are responsible for project planning and preparing the loan application, need some assurance that the construction funds will be available if they are to commit time and money to these endeavors. The value of approved loans and applications received to date about equals the authorized ceiling.

Accordingly, we will not be able to service additional loan applications much longer without an increase in the ceiling. In fact, we have been notifying potential applicants of this possibility.

The value of loans approved and those currently under review totals over $600 million, although only about one-half of the current $600 million appropriation ceiling has been appropriated. Notices of intent to apply for loans have been received from 29 potential applicants. These projects are still being planned, but the esti-

mated value of their loans is approximately $350 million. Therefore, an increase in the ceiling is required in order to finance the loans already in the planning process.

The loan program serves an important need and is unique from a cost-sharing standpoint. There has not been a default in repayment during the 27 years of the operation of the program.

Additionally, the loan funds are repaid by the applicant who also provides significant front-end financing. It is interesting to note that, over the past 10 years, local financing funds have been about 73 percent higher than they were during the preceding 18-year period going back to the start of the program in 1956. Typical single-purpose irrigation projects which are the most common ones under our program are now requiring more local financing, in the range of 20 to 30 percent, in order to meet the Department's policy of Federal subsidies of 50 percent or less for our category I consideration.

While irrigation does remain the major purpose, use of the program for municipal and industrial use and hydropower is increasing. These interest-bearing functions have increased to the point that about one-quarter of the loan funds over the past 8 years have been interest bearing.

Project repayment periods have been reduced from an average of 43 years for loans in the 1956 to 1970 period of time to approximately 33 years for loans made in the last 10 years, and this trend appears to be continuing as evidenced by the loans that we have made in the last 3 years which have repayment periods of from 25 to 30 years.

Under the Small Reclamation Projects Act, interest-free loans are intended to assist commercial agricultural production on lands determined to be irrigable and with excess landholding limitations. Interest is charged annually on those portions of loans associated with the furnishing of irrigation benefits to excess lands, to M&I water service, production of commercial hydropower, and the reimbursable portion of fish, wildlife enhancement, and public recreation.

In addition, the cost of water service for nonirrigable lands and small tracts of land not used for commercial production of agricultural crops or livestock must be allocated to M&I water supply and to be repaid with interest.

Under the current law, the interest rate is determined each fiscal year by the Secretary of the Treasury in accordance with the formula contained in the act and is based upon the computed average rate payable on outstanding long-term obligations of the United States. The rate applicable for fiscal year 1984 is 10⅜ percent.

We recommend that the Small Reclamation Projects Act be further amended to change the interest rate formula to reflect the average yield on the outstanding marketable securities of the United States. I am submitting the recommended language with my total statement for the record, Mr. Chairman, and this formula will reflect the actual cost of borrowing to the U.S. Treasury. During fiscal year 1984, this rate was calculated at greater than 12 percent. For comparison, the private market rate during this half of 1984 for BAA rated bonds was 14 percent.

Mr. Chairman, the original purpose of this program as authorized by the Congress in 1956 was to enable private water-user organizations in the 17 reclamation States and Hawaii to obtain loans and/or grants for the construction of small projects. This is even more appropriate today as we encourage greater non-Federal participation in the planning and construction of water projects. Loans approved under this program permit those private organizations to continue or to expand their operations with projects that they have planned entirely with their own resources and have partially financed for construction.

Mr. Chairman, I would like to submit my complete statement with the proposed amendment for the record, and I would be happy to answer questions on this bill now or we can save them until later.

[The prepared statement of Commissioner Olson on S. 1981 follows:]

42-808 0 - 85 - 3

Statement of Robert A. Olson, Acting Commissioner of the Bureau of Reclamation, Department of the Interior before the Senate Subcommittee on Water and Power of the Committee on Energy and Natural Resources on S. 1981, to amend the Small Reclamation Projects Act of 1956.

September 20, 1984

Mr. Chairman, members of the Subcommittee, on behalf of the Department of the Interior, I am pleased to appear here today to comment on S. 1981 which would amend the Small Reclamation Projects Act to increase the appropriation ceiling by $600 million.

With one amendment which would change the interest rate formula we recommend enactment of S. 1981 and its companion bill in the House, H.R. 4444. An increase in the authorized ceiling will allow us to operate the program for a number of years, without any other additional authorizations.

The authorization of an increased ceiling is vital to continue the orderly planning and loan approval process of these small but important projects. The applicants, who are responsible for project planning and preparing the loan applications need some assurance that construction funds will be available if they are to commit time and money in this endeavor. The value of approved loans and applications received to date about equal the authorized ceiling. Accordingly, we will not be able to service additional loan applications much longer without an increase in the ceiling. In fact, we have been notifying potential applicants of this possibility.

The value of loans approved and those currently under review total over $600 million although only about one-half of the current $600 million appropriation ceiling has been appropriated. Notices of intent to apply for loans have been received from 29 potential applicants. Their projects are still being planned but the estimated value of their loans is about $350 million. Therefore, an increase in the ceiling is required in order to finance the loans already in the planning process.

The loan program serves an important need and is unique from a cost-sharing standpoint. There has not been a default in repayment during the 27 years of operation. Additionally, the loan funds are repaid by the applicant who also provides significant front-end financing. Over the past 10 years local financing funds have been about 73 percent higher than they were during the preceding 18-year period going back to the start of the program in 1956. Typical single-purpose irrigation projects (most common under the program) are now requiring more local financing (25 to 30 percent) in order to meet the Department's policy of Federal subsidies of 50 percent or less for category I consideration. While irrigation remains the major purpose, use of the program for M&I and hydropower is increasing. These interest-bearing functions have increased to the point that about one quarter of the loan funds over the past 8 years have been interest-bearing. Project repayment periods have been reduced from an average of 43 years for loans made from 1956 to 1970, to approximately 33 years for loans made over the last 10 years. This trend appears to be continuing as evidenced by the loans made in the last 3 years which have repayment periods of only 25 to 30 years.

Two recently approved loans can be used to reflect these trends. The project of the Amity Mutual Irrigation Company in Colorado has an estimated cost of about $5 million and they are financing about 20 percent with non-Federal funds. Their Federal loan of about $4 million will be repaid in 29 years. The Santa Ana Watershed Project Authority in California has applied for, and we have approved, a loan of $15 million to build a project costing nearly $19 million. The $4 million of local financing is about 21 percent of the total cost. The Federal loan will be repaid in 30 years and about 17 percent will be interest-bearing. The interest-bearing portion is related to M&I uses. In addition, interest will be paid on a small amount of excess lands being irrigated.

As I mentioned earlier the Federal subsidy for loans under this program is less than 50 percent based on the Federal discount rate (8-1/8 for FY 1984). However, when the subsidy is equated with the savings to the borrower, i.e., comparing his cost of Federal borrowing with the cost of financing the loan in the private market, the subsidy is about 60 percent. This value is based on the

pattern of recent loans that reflect 75 percent for irrigation and 25 percent for interest-bearing M&I and hydropower. For individual projects the subsidy will range from 0 for some M&I or power features to 80 percent for irrigation. Loans made primarily for M&I purposes reflect an interest rate comparable to private market rates, hence the low subsidy. Alternatively, certain of these loans could be financed by tax-free municipal bonds, which would involve a Federal tax subsidy. Irrigation loans result in an 80 percent subsidy since, by law, no interest is charged.

Under the Small Reclamation Projects Act interest-free loans are intended to assist commercial agricultural production on lands determined to be irrigable and within excess landholding limitations. Interest is charged annually on those portions of loans associated with the furnishing of irrigation benefits to excess lands; M&I water service; production of commercial hydroelectric power, and the reimbursable portions of fish and wildlife enhancement and public recreation. In addition, the cost of water service to nonirrigable lands and small tracts or lands not used for the commercial production of agricultural crops or livestock must be allocated to M&I water supply and be repaid with interest.

Under the current law the interest rate is determined each fiscal year by the Secretary of Treasury in accordance with a formula contained in the Act and is based upon the computed average interest rate payable on outstanding long-term obligations of the United States. The rate applicable for fiscal year 1984 is 10-3/8 percent. We recommend that the Small Reclamation Projects Act be further amended to change the interest rate formula to reflect the average yield on the outstanding marketable securities of the United States. I am submitting the recommended language with my statement, this formula will reflect the actual cost of borrowing to the U.S. Treasury. During fiscal year 1984 this rate was greater than 12 percent. For comparison, the private market rate during half of 1984 for BAA rated bonds was 14 percent.

In summary, the original purpose of the program, as authorized by the Congress in 1956, was to enable private water user organizations in the 17 Reclamation States and Hawaii to obtain loans and/or grants for the construction of small projects. This is even more appropriate today as we encourage greater non-Federal participation in the planning and construction of water projects. Loans approved under this program permit those private organizations to continue or to expand their operations with projects they have planned entirely with their resources and partially financed for construction.

This completes my prepared statement, Mr. Chairman, and I would be happy to answer any questions.

Proposed DOI Amendment to S. 1981

Add the following after line 6 of S. 1981

In Section 5(c)(2) of the act after the words, "Secretary of the Treasury" delete the words, "as of the beginning of the fiscal year in which the contract is executed, on the basis of the computed average interest rate payable by the Treasury upon its outstanding marketable public obligations, which are neither due nor callable for redemption for 15 years from date of issue, and by adjusting such average rate to the nearest one-eighth of one per centum,"; and replace them with the following substitute words, "taking into consideration the average market yields on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the reimbursement period of the project during the month preceding the fiscal year in which the costs are incurred".

Senator NICKLES. Thank you very much, Mr. Olson. Just a couple of quick questions—you are supportive of modifying the interest calculation to make it actually what the Federal Government pays for money?

Commissioner OLSON. Yes.

Senator NICKLES. These are mostly projects that what, range in the couple of million, $2½ million, $3 million?

Commissioner OLSON. These are projects that with indexing allowed by the original act, can go up to about $41 million this fiscal year, but the loan and grant limit is two-thirds of that, which is a little over $26 million.

Senator NICKLES. I have a breakdown of the completed projects, and the ones that are under construction. Can you give me for the record and for my information, too—I know these are going to 17 States—how much loan money has gone to each one of the States, how many projects are provided for on a State-by-State basis? Not necessarily for right now, but if you can——

Commissioner OLSON. Mr. Chairman, I can provide that for the record and will be happy to do so.

Senator NICKLES. I would appreciate it. Some of these you mentioned, there is some hydro included on some of these?

Commissioner OLSON. There have been a few projects with small hydroplants, yes, sir.

Senator NICKLES. Is there enough money in these small projects for that?

Commissioner OLSON. There are enough benefits on a lowhead hydropowerplant. They can be built for $10 million or less. There are 2,500-kilowatt plants that have been built for $3.5 million to $4 million, so we are within the economic range.

Senator NICKLES. Are those economically viable?

Commissioner OLSON. Yes.

Senator NICKLES. That size?

Commissioner OLSON. Yes.

Senator NICKLES. You also mentioned that there has been a move over the last several years to kind of pull in or tighten in on repayments from 40 down to many of these are down into the 30- or the 25-year range?

Commissioner OLSON. Yes, sir.

Senator NICKLES. I would compliment you on that move and encourage you in that same direction.

Commissioner OLSON. Thank you very much, Mr. Chairman.

Senator NICKLES. Senator Ford, did you have any comments or questions on this bill?

Senator FORD. Is the witness talking about all three bills, S. 1981, S. 1884, and S. 2643?

Senator NICKLES. He is. At this point he has only gone over the small reclamation projects bill. That is S. 1981.

Senator FORD. What is the cost of S. 1981? Do we have the cost on that, the total?

Commissioner OLSON. The act presently has an authorized ceiling of $600 million, and we have loans currently approved and pending approval that would fully utilize that original authorized ceiling of $600 million.

We also have 29 applicants presently in the planning process using their own money to plan, that would expend another $350 million, so therefore, we are asking to increase the ceiling an additional $600 million.

Senator FORD. So we are talking about $1.2 billion?

Commissioner OLSON. $1.2 billion, total authorized.

Senator NICKLES. $600 million to $1.2 billion.

Senator FORD. What is the offset of $1.2 billion?

Commissioner OLSON. We have received reimbursement of, Senator Wilson said, 97 percent. I am not sure what the other 3 percent was, but we have not had any default on any of our small reclamation project loans at this point in time.

Senator FORD. What kind of interest rate are you drawing?

Commissioner OLSON. The interest rate for 1984 is 10⅜, and we are proposing an amendment to charge the average market yield which would increase that just slightly.

Senator FORD. That is almost high enough to borrow from commercial banks, isn't it?

Commissioner OLSON. For comparison purposes, Senator, we say that BAA bonds are about 14 percent, so it is very close to it.

Senator FORD. I don't want to go too far here, but in S. 1884 you are relieving an irrigation district of certain repayment obligations.

Senator NICKLES. That is a different bill.

Senator FORD. We are just staying on this one bill? I thought we were having testimony on all three of them this morning.

Senator NICKLES. We are, and he is going to get on that bill in just a second.

Let me ask an additional question on S. 1981 and then we will move into the additional bills.

Mr. Olson, you mentioned as of today we have how much of the $600 million? How much of that is already appropriated and spent?

Commissioner OLSON. I believe it is approximately $350 million.

Senator NICKLES. How much is obligated?

Commissioner OLSON. About the additional up to $600 million.

Senator NICKLES. So there is no new project that really can be authorized by the Bureau unless this authorization level is increased?

Commissioner OLSON. Those that are pending approval will be covered. The 29 applications that are being prepared for approval cannot be authorized and we are turning back applicants.

Senator NICKLES. What is the value of those 29 that are pending approval?

Commissioner OLSON. About $50 million.

Senator NICKLES. So this program started what, 30 years ago?

Commissioner OLSON. In 1956, yes.

Senator NICKLES. Almost 30 years ago, and it took that 30 years to get up to the $300 million authorization, and in 1 year you are going to authorize projects that equal that under the same program?

Commissioner OLSON. Essentially the additional $600 million would allow the funding——

Senator NICKLES. I am not on the additional $600 million. I am talking about in 1 year you are talking about having new authorizations that will go from the $300, $350 up to the $600 million?

Commissioner OLSON. We would probably not do the 29 in 1 year. We have nine applications pending that may be approved in 1985. We have received 29 notices of intent to apply, but there is a period of time required for them to do their planning and the loan application, and it could span over several years.

We believe the additional increase would allow the program to go along for an additional 5 or 6 years.

Senator NICKLES. That was my next question. I was wondering if it took us 28 years to authorize the $350 million and if you are talking about—how long, are you saying that in 1 year we are going to be up to the $600 million?

Commissioner OLSON. No. I am saying that it would take at least 5 years or slightly longer. It depends upon——

Senator NICKLES. I am talking about the first $600 million.

Commissioner OLSON. The first $600 million, that would be—excuse me just a minute. I will give it to you.

[Brief pause in the proceedings.]

Senator NICKLES. Your aide can answer the question.

Commissioner OLSON. We are budgeting about $50 million a year. We have expended $350 million of the first $600 million although our obligations for approved projects or soon-to-be-approved about equal the $600 million. It will take another 4 or 5 years to expand that money. Plus, we have the 29 notices of intent that would be going through the program process before we started working on the new $600 million increased ceiling. We don't plan them in a year and construct them in a year. The construction period is over 2 or 3 or sometimes even as many as 4 years. So again, since 1956 we have obligated about $600 million but appropriated only $350 million.

In 1956 the individual project level was $10 million with provisions for indexing, and it has been indexed up to about $40 million, so the time for using this $600 million, if it is authorized by Congress, will undoubtedly be a shorter period of time than it has been from 1956 up to now because of the increased cost of constructing these projects.

Senator NICKLES. But I was trying to get some kind of a curve on how many projects and how rapid has that been in the last couple of years? Has it gone up dramatically in the last couple of years?

Commissioner OLSON. The cost has gone up dramatically. We try to hold the budget expenditures to about the same amount of money, but for the same amount of money on an annual basis you probably get fewer projects, but I understand your question, Mr.

Chairman. Let us provide a curve and a breakdown for the record if you please.

Senator NICKLES. If you would, I would appreciate that; also what you project under this additional $600 million, and if you would include in that my previous request of where are these projects, where are the applications, and those amounts with them so we can have an idea of not only the timing but also geographically where this money is, where it is going, and where it will be going, if the additional amount is authorized.

Commissioner OLSON. We will be glad to do that for the record.

Senator NICKLES. Thank you very much. Would you care to make some comments on S. 1884?

STATEMENT OF HON. ROBERT A. OLSON, ACTING COMMISSIONER, BUREAU OF RECLAMATION, DEPARTMENT OF THE INTERIOR, ON S. 1884

Commissioner OLSON. The proposed S. 1884 is to relieve the Elephant Butte Irrigation District of certain repayment obligations and for other purposes.

Mr. Chairman, we have no objections to the portion of the bill which relieves the district of certain existing repayment obligations.

However, we do object to the part of the bill which allows the district to receive credit against its future operation and maintenance costs.

By way of background, Mr. Chairman, in 1979, we transferred to the district operation and maintenance responsibility for the facilities served by the district. At that time employees of the Bureau of Reclamation who had been employed to carry out operation and maintenance activities on those facilities were released from their employment. Certain severance payments amounting to about $48,000 were incurred by the Bureau of Reclamation and billed to the district as operation and maintenance charges.

Subsequently, application of some grazing and land use revenues was made to offset those severance charges which reduced the net obligation to about $33,000. The district has objected to payment of these charges, and Reclamation has been carrying the charges on its books over the last few years. As we view it, it is an outstanding obligation. We have accrued the interest penalties with the result that as of September 30, 1984, the obligation will have grown to $61,106.

At the same time, however, we have revenues from land and easement sales in the Rio Grande project that presently total approximately $53,837. We feel that about $1,400 of these revenues could be administratively applied against the district's outstanding obligation. However, the remaining revenues, totaling about $52,458, are associated with sale of some nonimproved withdrawn land and a flood easement which we have been advised by our Solicitor's Office are unavailable to apply as a credit to that obligation.

We have no objections, however, if these revenues are legislatively authorized to be applied as a credit to the district's obligation.

We would recommend that the language of the bill be amended so as to ensure that we have clear authority to apply land and easement sale revenues particularly for nonimproved withdrawn lands.

We are concerned about the provision of the bill which allows the district to automatically receive the benefit of future revenues as a credit against its operation and maintenance costs. The Bureau of Reclamation and the Interior Solicitor's Office are currently examining existing legislative authority and legislative history to ascertain if past and current practices associated with crediting and the disposition of miscellaneous project revenues have taken place in line with congressional intent.

Following this review and any subsequent policy adjustments that may have to be made, we would like to be able to treat the Elephant Butte Irrigation District in the same manner and provide them with the same benefits as we will other Bureau of Reclamation contractors.

For this reason, we would prefer that the last line of the proposed legislation be deleted from S. 1884.

[The prepared statement of Commissioner Olson on S. 1884 follows:]

Statement of Robert Olson, Acting Commissioner of Reclamation, Representing the Department of the Interior before the Senate Energy and Natural Resources Committee, on S. 1884, a Bill "To Relieve The Elephant Butte Irrigation District of Certain Repayment Obligations, and for Other Purposes"

September 20, 1984

Mr. Chairman and members of the subcommittee, thank you for inviting me to testify today on S.1884, a bill to provide relief to the Elephant Butte Irrigation District for certain repayment obligations. We have no objection to the portion of the bill which relieves the district of certain existing repayment obligations. However, we strongly object to the part of the bill which allows the district to receive credit against its future operation and maintenance costs, and recommend its deletion.

By way of background, in 1979, we transferred to the district operation and maintenance responsibility for facilities serving the district. At that time, employees of the Bureau of Reclamation who had been employed to carry out operation and maintenance activities on those facilities were released from their employment. Certain severance payments amounting to about $48,000 were incurred by the Bureau and billed to the district as operation and maintenance charges. Subsequently, application of some grazing and land lease revenues were made to offset those severance charges which reduced the net obligation to about $33,000. The district has objected to payment of those charges, and Reclamation has been carrying the charges on its books over the last few years. As we view it as an outstanding obligation, we have been accruing interest penalties with the result that, as of September 30, 1984, the obligation will have grown to $61,106.

At the same time, we have revenues from some land and easement sales in the Rio Grande Project that presently total to $54,337. There is also $1,400 of land lease revenues that could be administratively applied against the district's outstanding obligation. However, we have been advised by our

Solicitor's Office that the revenues, totalling $52,958, which are associated with sale of some non-improved withdrawn land and a flood easement are unavailable to apply as a credit to the obligation for the severance pay. We have no objection if these revenues are legislatively authorized to be applied as a credit to the district's obligation. We would recommend that the language of the bill be amended so as to ensure that we have clear authority to apply land and easement sale revenues, particularly for non-improved withdrawn lands.

We are concerned about the provision of the bill which allows the district to automatically receive the benefit of future revenues as a credit against its operation and maintenance costs. This may be inconsistent with authorized practices on the rest of Reclamation's projects, and we believe it would be an improper precedent with potentially far-reaching implications. The Bureau of Reclamation and Interior's Solicitor's Office are currently examining existing legislation and legislative history to ascertain if past and current practices associated with crediting and disposition of miscellaneous project revenues have taken place in line with Congressional intent. Following this review, and any subsequent policy adjustments that may have to be made, we would like to be able to treat the Elephant Butte Irrigation District in the same manner and provide them with the same benefits as we will other Bureau of Reclamation contractors. For this reason, we strongly recommend that the last sentence of the proposed legislation be deleted from S. 1884.

I would be happy to answer any questions the Committee may have.

Department of the Interior Recommended Changes in S. 1884

"S. 1884"

To relieve the Elephant Butte Irrigation District of certain repayment obligations, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to relieve the Elephant Butte Irrigation District of any obligation to reimburse the Bureau of Reclamation for leave and severance payments to certain employees of the Rio Grande Project separated as a result of the transfer of operation and maintenance responsibilities to the Elephant Butte Irrigation District, miscellaneous revenues having been collected by the Bureau of Reclamation from the sale or lease of project lands, interests in lands, or other project sources may be credited to the Elephant Butte Irrigation District for such leave and severance payments and accrued interest penalties on the district's obligation, and any residual repayment obligation for leave and severance payments shall be nonreimbursable and nonreturnable.

Senator NICKLES. Mr. Olson, you mentioned that you would recommend language in the bill to be added or amended so as to ensure that you have clear authority to apply land and easement sales revenues particularly for nonimproved withdrawn lands.

Do you have language for that?

Commissioner OLSON. We do not have language, Mr. Chairman. We would be glad to work with the subcommittee to provide some.

Senator NICKLES. OK. Also, in your last sentence you would prefer the last line of the legislation be deleted.

Commissioner OLSON. Yes, sir.

Senator NICKLES. The last line or the last sentence?

Commissioner OLSON. It would be the last sentence. I'm sorry. "Any surplus funds over and above * * *" starting on line 3 of page 2, through line 10.

Senator NICKLES. OK. If you would provide us with the language I requested, we will certainly keep your other thoughts on this in mind. I would hate to see the Bureau spend $200,000 in legal expenses with the Solicitor trying to figure out whether or not we can have the transfer from 60 to 53.

Commissioner OLSON. Yes, sir. We will be glad to provide that language.

Senator NICKLES. Do you have comments on S. 2643? Before we move, Mr. Olson, on that one, under the terms of the bill, those funds that are already collected by the Bureau would be applied toward money owed by the district under existing law.

To what purpose would those funds have otherwise been applied?

Commissioner OLSON. They would be deposited into just the Reclamation Fund but not into repayment obligation of the Rio Grande project.

Senator NICKLES. So it basically goes into the Bureau's general revenue?

Commissioner OLSON. General revenues of the Reclamation Fund.

Senator NICKLES. Of the Reclamation Fund; you also mentioned in your statement that the Bureau and the Solicitor's Office were examining past and current practices associated with the crediting and disposition of miscellaneous project revenues.

Do you have any idea when that review might be completed?

Commissioner OLSON. We believe within the next 2 weeks; we have just checked with the Solicitor's Office. They have about 30 pages of documentation, and we believe it should be done within the next 2 weeks.

Senator NICKLES. Would you submit that to this committee so we can review that when you have your findings complete?

Commissioner OLSON. We will be glad to, Mr. Chairman.

Senator NICKLES. Thank you very much. Do you have some comments on S. 2643?

STATEMENT OF HON. ROBERT A. OLSON, ACTING COMMISSIONER, BUREAU OF RECLAMATION, DEPARTMENT OF THE INTERIOR, ON S. 2643

Commissioner OLSON. Thank you, Mr. Chairman. We appreciate the opportunity to provide the administration's comments on S.

2643, a bill to extend the service area of the San Luis unit of the Federal Central Valley project in California.

Specifically this measure would include the Pleasant Valley Water District in Fresno County as a part of the San Luis unit.

The Pleasant Valley Water District consists of approximately 35,000 acres of irrigated farmlands in the vicinity of the city of Coalinga. The unique microclimate and fertile soil of the Pleasant Valley which is adjacent to the San Joaquin Valley are the basic elements which have sustained the agriculture in this area since the turn of the century. Agriculture in the district has relied solely on ground water pumped from underground.

In recent years, however, a declining water table and a deteriorating ground water quality have adversely affected the farming operations. The problems with the existing water supply point to the need for a source of supplemental irrigation water if the regional economy is to be sustained.

The Coalinga Canal, formerly the Pleasant Valley Canal, was constructed as a Federal feature of the San Luis unit and would serve as the main conveyance facility in providing supplemental water to the Pleasant Valley District.

By including the Pleasant Valley Water District in the service area of the Central Valley project, the Congress will be allowing the district to begin working with the Bureau of Reclamation on the design of a water delivery system. Including the district in the Federal service area will also make the district eligible to contract with the Secretary of the Interior for a water supply from the Central Valley project.

Before a contract for water deliveries can be entered into, the Bureau of Reclamation and the district have a considerable amount of preliminary work to accomplish. Extensive engineering and economic and environmental analyses would be required. In addition, a careful assessment of the area's drainage needs and implications to the San Luis unit drainage would have to be made.

We support the concept of expanding the San Luis unit service area as described in the bill. We do, however, want to point out that because of its linkage with other related California issues, that additional issues need to be taken into consideration. These issues include the execution of the coordinated operating agreement between the Federal Central Valley project and the State water project, resolution of issues surrounding water quality standards and Decision 1485 of the State water resource control board, to name a few.

We also are concerned about a solution for the drainage problems, the identification of the problem in the San Joaquin Valley which is needed to maintain that long-term agricultural viability.

Mr. Chairman, I would like to submit my complete statement for the record. I would be happy to answer any questions on this piece of legislation.

[The prepared statement of Commissioner Olson on S. 2643 follows:]

Statement of Robert Olson, Acting Commissioner of Reclamation, Representing the Department of the Interior Before the Senate Energy and Natural Resources Committee on S.2643, a Bill "To extend the service area for the San Luis Unit of the Central Valley Project, California, and for other purposes."

September 20, 1984

Thank you, Mr. Chairman, for the opportunity to provide the Administration's comments on S. 2643, a bill to extend the service area for the San Luis Unit of the Federal Central Valley Project in California and for other purposes.

Specifically, this measure would include the Pleasant Valley Water District in Fresno County as a part of the San Luis Unit.

The Pleasant Valley Water district consists of approximately 35,000 acres of irrigated farmland in the vicinity of the city of Coalinga. The unique microclimate and fertile soil of the Pleasant Valley which is adjacent to the San Joaquin Valley are the basic elements which have sustained agriculture in this area since the turn of the century. Agriculture in the district has relied solely on ground water pumped from underground. In recent years, however, a declining water table and deteriorating ground-water quality have adversely affected farming operations. Problems with the existing water supply point to the need for a source of supplemental irrigation water if the regional economy is to be sustained.

The Coalinga Canal, formerly the Pleasant Valley Canal, was constructed as a Federal feature of the San Luis Unit and would serve as the main conveyance facility in providing supplemental water to the Pleasant Valley District.

By including Pleasant Valley Water District in the service area of the Central Valley Project (CVP), the Congress will be allowing the district to begin working with the Bureau of Reclamation on the design of a water delivery system. Including the District in the Federal service area will also make the district eligible to contract with the Secretary of the Interior for a water supply from the CVP.

Before a contract for water deliveries is entered into, however, the Bureau of Reclamation and the District have a considerable amount of preliminary work to accomplish. Extensive engineering, economic and environmental analyses would be required. In addition, a careful assessment of the area's drainage needs and implications for San Luis Unit drainage would have to be made.

We support the concept of expanding the San Luis Unit service area as described in the bill, but without considering other related California water issues we feel that this action is premature. These issues include: execution of the Coordinated Operating Agreement between the Federal CVP and the State Water Project (SWP); resolution of the issues surrounding Decision 1485 of the State Water Resources Control Board; and Congressional consideration of Section 203(b) of the 1982 Reclamation Reform Act. We are also concerned with the need for additional water storage facilities to meet the future demands of the CVP and SWP. Another concern is a solution to the drainage problem in the San Joaquin Valley which is needed to maintain the long-term agricultural viability.

I would be happy to answer any questions the Committee may have.

Senator NICKLES. Mr. Olson, I am probably not as familiar with this project as I should be. What is the length of the canal that would have to be built?

Commissioner OLSON. The distribution system would be about a $37 million project, but I am not sure. I could provide that information for the record. It is not a significant distance.

[The information follows:]

There is no canal to be built. The Coalinga Canal, formerly called the Pleasant Valley Canal, is that canal. This distribution system includes a 1.6-mile intake channel to the Pleasant Valley Pumping Plant and 11.6 miles of canal. The district would hook its distribution system into the Coalinga canal. The cost of the distribution system is estimated by Joseph B. Summers, Inc., Consulting Engineers, to be $37 million.

Senator NICKLES. As this bill is presently drafted, is there any limit to the number of acres added to the service area of the San Luis unit?

Commissioner OLSON. The way the bill is drafted, it does not.

Senator NICKLES. Because of the short time available for the securing of comments on the legislation, the subcommittee has not received comments from the State of California on this bill.

Do you have any indication from the State whether or not this legislation is supported?

Commissioner OLSON. From the State in general, I do not, Mr. Chairman.

Senator NICKLES. Or from the Governor; so this bill would also specify Pleasant Valley Water District would be eligible for a loan under the distribution system's Loan Act of 1955.

What is the anticipated size of the loan?

Commissioner OLSON. Mr. Chairman, $37 million.

Senator NICKLES. Would the district's landowners be subject to the acreage and pricing limitations of the reclamation law?

Commissioner OLSON. Yes, they would. That would be a condition.

Senator NICKLES. Should we mention that? If we are drafting the legislation, do you think that should be mentioned?

Commissioner OLSON. It wouldn't be necessary, but again, it wouldn't hurt.

Senator NICKLES. Is there sufficient water available from the Central Valley project to serve Pleasant Valley?

Commissioner OLSON. One of the conditions of other related California issues that need to be resolved is the coordinated operating agreement between the State and the Federal Government. When that issue is resolved, which is presently being negotiated, that will determine the responsibilities of the State and Federal Government as it relates to the delta water quality and delta issues; then there would be water available.

At this point in time it is doubtful that there would be water available until that issue is resolved.

Senator NICKLES. I need a little further clarification of your answer. Is there ample water quantity to provide for both?

Commissioner OLSON. After the negotiation of the coordinated operating agreement which we hope to be completed by next spring, then yes, there would be. It is 1 million acre-feet, approxi-

mately 1 million acre-feet that would be available for additional markets, for different areas in California.

At this point in time, the answer to the question for today would have to be no, that we would not have the water supply.

Senator NICKLES. So they wouldn't have unless there is an agreement basically between the Federal and the State?

Commissioner OLSON. And the State.

Senator NICKLES. Mr. Olson, I appreciate your appearance before the committee today. As usual, you do a fine job and I compliment you and your staff and look forward to working with you on these and other issues.

Commissioner OLSON. Thank you, Mr. Chairman, and we appreciate working with the committee in your support of the Reclamation Program in this session of Congress.

[Subsequent to the hearing the Department of the Interior submitted the following:]

Small Reclamation Projects Act
Project Summary

Loan Projects	Number	Value (million dollars) Average	Total	Cumulative
Completed	87	2.42	210.2	210.2
Under construction	27	8.95	241.7	451.9
Approved, not yet in construction	3	10.40	31.2	483.1
Applications being reviewed	9	13.62	122.6	605.7
Applications being prepared	29	12.03	348.9	954.6
Total	155	6.16	954.6	

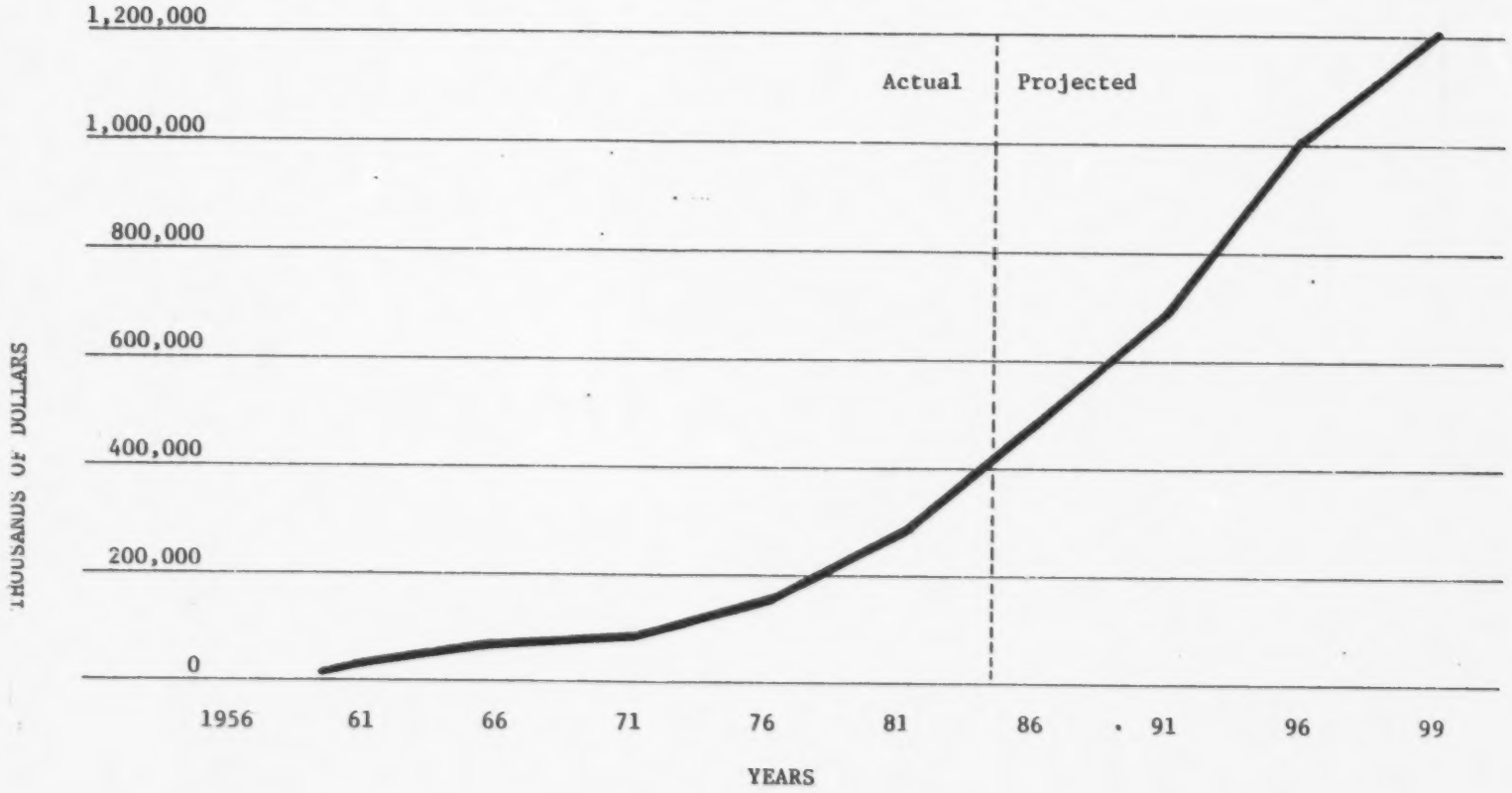
Loan Applications
Approved or Under Review *

	State	Number of Loans	Value of loans (million dollars)
1.	Arizona	12	75.6
2.	California	48	333.3
3.	Colorado	6	16.3
4.	Hawaii	1	4.5
5.	Idaho	6	3.6
6.	Kansas	0	0
7.	Montana	6	10.4
8.	Nebraska	6	24.7
9.	Nevada	1	0.3
10.	New Mexico	0	0
11.	North Dakota	0	0
12.	Oklahoma	0	0
13.	Oregon	4	29.9
14.	South Dakota	0	0
15.	Texas	13	75.0
16.	Utah	19	23.8
17.	Washington	2	4.9
18.	Wyoming	2	3.4
	Total	126	605.7

* Construction is completed on 87 of the approved projects, 27 are under construction, 3 approved but construction not started, and 9 applications are under review.

Applications Under Prepartation

	State	Number of Loans	Value of Loans (million_dollars)
1.	Arizona	2	12.6
2.	California	16	236.7
3.	Colorado	4	30.4
4.	Hawaii		
5.	Idaho		
6.	Kansas		
7.	Montana	1	3.3
8.	Nebraska		
9.	Nevada		
10.	New Mexico		
11.	North Dakota		
12.	Oklahoma		
13.	Oregon		
14.	South Dakota		
15.	Texas	4	49.9
16.	Utah	1	4.0
17.	Washington	1	12.0
18.	Wyoming		
	Total	29	348.9



SMALL RECLAMATION PROJECTS ACT
Cumulative Appropriations

Senator NICKLES. Our next panelist is Mr. Boen, chairman of the small projects committee, National Water Resources Association, from California. Mr. Boen.

STATEMENT OF DOYLE F. BOEN, CHAIRMAN, SMALL PROJECTS COMMITTEE, NATIONAL WATER RESOURCES ASSOCIATION, HEMET, CA, ACCOMPANIED BY ROBERT P. WILL, ATTORNEY AT LAW, ASSOCIATION OF CALIFORNIA WATER AGENCIES

Mr. BOEN. Mr. Chairman, I am joined by Mr. Robert Will who represents the Association of California Water Agencies and is very familiar with the small reclamation projects programs, so I would like to introduce Mr. Will.

Mr. Chairman, my name is Doyle Boen, and I come from Hemet, CA. I appreciate the opportunity to appear before your committee in the capacity of chairman of the small projects committee of the National Water Resources Association.

The association and its small projects committee thank you for scheduling this hearing on S. 1981 to amend the Small Reclamation Projects Act to extend the present ceiling of authorization to be appropriated to carry out the provisions of the act.

We also wish to thank your committee for the strong continued support of the act since its early enactment.

Our small projects committee has compiled the attached exhibit A which includes a summary of some of the features of the Small Projects Act program, its accomplishments, and the status of projects showing commitment of funds. This summary indicates that unless S. 1981 is enacted, at least 30 projects in various stages of development could not be funded when their applications have been completed and approved by the Secretary of the Interior. This does not include the many projects throughout the reclamation States that are being locally considered but have not as yet filed notices of intent.

It should be noted that these applications for loans include extensive engineering feasibility and environmental reports and other findings that normally require 2 or 3 years to complete and cost the applicant from $100,000 to $200,000, and I would like to note that with great interest I have listened to the questions this morning and would like to point out that the figure earlier mentioned, 29—I said about 30—I am generally pretty familiar with most of them. Those are in the category designated notice of intent, but it should be noted that a project remains in that category of notice of intent until the application is substantially complete and in the hands of the Bureau for final review. Therefore, many of those 30-some odd projects could have spent and are spending up to between $100,000 and $200,000 and have been working on that application for a considerable time, so these projects that are depending upon this extended authorization are not just an idea. They currently represent a substantial investment by these applicants.

As you know, the National Water Resources Association was given the opportunity to work closely with this committee during the legislative years on the development of the features of the act and has continued to work with the committee to improve and

extend the program by the passage of six additional bills since 1956.

The association has reaffirmed its support of this program by formal detailed resolutions annually since its original enactment, and specifically supports S. 1981 and its companion bill, H.R. 4444, and we have prepared the attached exhibit that shows that since the Small Reclamation Projects Act was passed in 1956, 116 projects under this act have either been completed or are under construction, and 42 additional are approved or are in various stages of report development as I have already outlined.

I wish to note that from my personal experience and that of many others in the water resources filed there is no other Federal assistance program available to assist local non-Federal multipurpose water projects in less affluent areas of the West involving irrigation.

Now when we speak of multipurpose projects in this category of projects these involve almost every possible water resource development, but it should be noted that they largely represent areas that have an agricultural history, existing agriculture, and the projects are essential to sustaining economies for the most part rather than building new agricultural economies.

We find throughout the western area that original water systems were by necessity the most simple that could be had. They were largely just well fields, local wells, with no opportunity in the early years to consider ground water problems because they weren't known. But over the years, these ground water basins and the initial supplies became inadequate, by overdrafting depletion of the ground water basins. These projects have rescued so to speak existing economies, and have allowed these local areas to build better projects, more permanent projects with water conservation features to carry through to the future and provide in the planning adequately for the new multipurpose demands of municipal and industrial use as it becomes integrated in these areas.

When I say that no other program has been available, I am speaking with more than 30 years' experience. It was my privilege to participate in the development of this act with the committee back in 1953, 1954, 1955, and 1956, and to administer two of these loan projects myself for an agency that I served as general manager for 30 years. I listened with great interest to the questions about the annual cost. The first project that I have experienced was a project that cost $6½ million. We raised local funds in the amount of $1½ million and had the maximum loan which was $5 million. That project could not have been built without this assistance. The $1½ represents the maximum amount that could be raised from local bonds. The assessed valuation of that 55,000-acre agricultural area was about $1.8 million.

Now by joining together with the assistance from this program, it was possible to crank in long-range planning and provide a system that would be, that will be adequate for 20, 30, 40 years. As a matter of fact, it is serving that purpose. That same area has been permitted as a result of that project to grow to a population now of about 100,000 people, still sustaining the existing agriculture.

Now the features of the Small Reclamation Projects Act were what was needed for that kind of development. The area had great investment already from its own financial capacity. It had some excess lands, but acreage limitation and so forth, was best provided by interest on the excess land. Since then those lands have been broken up and now the project is paying substantial interest because of the municipal, the domestic water uses within the area. So I think that is kind of typical, but if that project was being built today, it would be a $26 million loan no doubt because that is what the index of typical projects that the Bureau of Reclamation has found to be equivalent, so this has to be taken under consideration. The costs of projects is greater by that tremendous amount. So is everything else.

Now the area that I mentioned also points out some typical considerations in the West. The ground water basin is 55,000 acres, being broken up into subbasins. It was being depleted so that the economy was jeopardized.

The agriculturists by helping support that ground water conservation program have made possible keeping that ground water basin viable.

Now the reason I am going into that detail, this is typical of at least half of the projects. Others have inadequate surface systems and have required regulation in order to meet these growing demands, so the financial structure of this program has been unique and is badly needed by the West as indicated by the new projects.

I have deviated from my statement, but I thought I would like to add those personal comments in view of the fact it seems to reflect on some of the answers or the questions I have heard this morning.

[The prepared statement of Mr. Boen follows:]

STATEMENT BY DOYLE F. BOEN, CHAIRMAN OF THE SMALL PROJECTS COMMITTEE

OF THE NATIONAL WATER RESOURCES ASSOCIATION

SEPTEMBER 20, 1984

Senator Don Nickles, Chairman
Subcommittee on Water and Power
Committee on Energy and Natural Resources
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman:

My name is Doyle F. Boen of Hemet, California. I appreciate the opportunity to appear before your Committee in the capacity of Chairman of the Small Projects Committee of the National Water Resources Association.

The Association and its Small Projects Committee thank you for scheduling a hearing on S 1981 to amend the Small Reclamation Act to extend the present ceiling of the authorization to be appropriated to carry out the provisions of the Act. Also we wish to thank your Committee for its strong continued support of this Act since its early legislative history beginning in 1953.

Our Small Projects Committee has compiled the attached Exhibit A which includes a summary of some of the features of the Small Projects Act Program, its accomplishments and status of projects, showing commitment of funds. This summary indicates that unless S 1981 is enacted at least 30 projects in various stages of development could not be funded when their applications have been completed and approved by the Secretary of Interior. This does not include the many projects throughout the Reclamation States that are being locally considered but have not as yet filed formal "Notice of Intent." It should be noted that these applications for loans include extensive engineering feasibility and environmental reports and other findings that normally require two to three years to complete and cost the applicant from one to two hundred thousand dollars.

As you know, the National Water Resources Association was given the opportunity to work closely with this Committee during the years 1953 through 1956 in the development of features of the Small Reclamation Project Act and has continued to work with the Committee to improve and extend the program by the passage of six aditional bills since that time. The Association has reaffirmed its support for this program by formal detailed Resolutions annually since its original enactment and specifically supports S 1981 and its companion House Bill, HR 4444.

Our attached Exhibit A shows that since the Small Reclamation Project Act was passed in 1956, 116 projects under this Act have either been completed or are under construction and 42 additional projects are approved or are in various stages of report development and review preparatory to approval.

I wish to note that from my personal experience and that of many others

in the water resources field, there is no other Federal assistance program available to assist local non-Federal multipurpose water projects in less affluent areas of the West involving irrigation.

We believe that some of the principal reasons that the program has enjoyed the support of the Senate for 28 years are as follows:

- Repayment of loan is 100 percent with interest on benefits to M&I use, excess lands, and power generation. In 28 years experience, there have been no defaults.

- There is project cost-sharing currently averaging about 25 percent, including up-front cost of application which is an engineering feasibility report, together with local matching funds during construction.

- A large number of the projects are rehabilitation of old systems resulting in the conservation of water and energy.

- The projects are planned and initiated by the local districts who are required to fund their feasibility studies and loan applications.

- The applicant (local water agencies), with assistance by the private sector, does the planning, design, and construction contract administration. The Bureau of Reclamation is responsible for general review of design and final engineering plans and inspects the quality control of construction to protect the investment of the Federal Government.

- The quality of water resource development and rehabilitation projects completed under this program is a tribute to the advantages of local planning and construction administration coupled as a team with Bureau of Reclamation "Know How", Expertise and Overview.

In closing, on behalf of the National Water Resources Association and its Small Projects Committee, I wish to thank you for the strong support that your Committee has given for the Small Reclamation Projects Act and other water resources development programs which are so important to our Nation and of vital concern to the National Water Resources Association. And finally, I urge that your Committee favorably consider S 1981 and support its enactment this Session of Congress.

Sincerely,

Doyle F. Boen
Chairman of the Small Project Committee
National Water Resources Association

Compiled by the Small Projects Committee of the NWRA
May 1, 1984

SMALL RECLAMATION PROJECTS ACT OF 1956
PUBLIC LAW 84-984

EXHIBIT A

BRIEF REVIEW AND PROJECT LOAN STATUS

May 1, 1984

The accumulated accomplishments of the Small Projects Loans during the 27 years of experience since passage of the Act in 1956 can be summarized as follows (a detailed status report on all projects is attached):

Project Category	Number of Loans	Accumulated Loans ($ mil)	Accumulated Project Cost ($ mil)
Completed	87	206	249
Under Construction	29	236	284
Application Approved or in process	14	196	267
Subtotal	130	638	800
Notices of Intent--*	28	396	--

*(Implies that Application-Engineering Feasibility Reports being developed by applicant)

The current authorization ceiling of $600 million is in need of extension since the completed projects and applications under consideration substantially exceed the limit. This limit has been amended periodically to accommodate the new loan applications, and should be raised this year so that some thirty (30) projects with substantial local up-front contributions may proceed.

In addition to the strong need for Federal assistance to local projects, the principal reasons that the program has enjoyed the support of Congress for over 25 years are:

- Repayment of loan is 100 percent with interest on benefits to M&I use, excess lands, and power generation. In 27 years of experience, there have been no defaults.
- There is project cost-sharing currently averaging about 25 percent including up-front cost of application which is an engineering feasibility report, together with local matching funds during construction.
- A large number of the projects are rehabilitation of old systems resulting in the conservation of water and energy.
- The projects are planned and initiated by the local districts who are required to fund their feasibility studies and loan applications.
- The applicant (local water agencies), with assistance by the private sector, does the planning, design, and construction contract administration. The Bureau of Reclamation is responsible for general review of design and final engineering plans and inspects the quality control of construction to protect the investment of the Federal Government.
- The quality of water resource development and rehabilitation projects completed under this program is a tribute to the advantages of local planning and construction administration coupled as a team with Bureau of Reclamation Know How, Expertise, and Over View.

Senator NICKLES. Mr. Boen, I appreciate your comments and also the fact that you have a history with the formation of this act going way back when.

Let me ask you just a couple of questions and I am going to have to—we have three other panelists and I also have another obligation shortly.

We mentioned or we have discussed the interest rate change where the discussion was by Mr. Olson of increasing to the market rate.

Does that concern you?

Mr. BOEN. Mr. Chairman, we of the small projects committee feel that the program could survive with such a proposed amendment.

Senator NICKLES. When it was created were the interest rates regularly subsidized at that time, looking back at some of the other Bureau projects that we have had in the past?

Mr. BOEN. No, because interest rates were substantially stable in the late 1940's, 1950's.

Senator NICKLES. Were you paying market rates? This program was started in 1956. You mentioned some of these projects were done on an individual basis?

Mr. BOEN. Yes, it was. The original interest rate was on such a basis as being proposed. It was changed because of, the reason the Water Supply Act interest formula was recommended by our committee back in the early 1960's was there was beginning, we were beginning to see fluctuation in interest rates. It created a problem that a project would be developed on one interest rate and by the time it was being reviewed for final approval, the interest rate would have changed somewhat because some of these projects take a couple of years to completely develop the application and the engineering feasibility reports. It was found you would have to go back and redo everything in order to have the report acceptable. So that was the reason for going to the Water Supply Act which stabilized interest by being a 15-year average—but our committee would not seriously object to a market yield rate.

Senator NICKLES. Is the marked yield proposal, and I should have asked this of Mr. Olson, is that for only new projects or does that adjust on each of the projects that are pending?

Mr. BOEN. It would be my understanding it was only on new projects because the 115—100 projects that are more or less—that are already being built or have been built are under current repayment contracts.

Senator NICKLES. And those contracts do not provide for an adjustable interest?

Mr. BOEN. I really don't know of any program that provided for that sort of repayment in this field.

Senator NICKLES. Then one thing that I think you probably would concede then, that the taxpayers have lost some money on those projects? They may have been current and have always made payments, but if that is repaying a 5-percent note—and we find this not just in the Bureau but we find it in a lot of things where interest rates have increased dramatically, the Federal Government is borrowing money at 12½, 13 percent.

Mr. BOEN. I think this is typical of Federal programs, that there have been some subsidies. We would say this, that the subsidies we

feel have been probably one of the greatest investments that the Federal Government has ever made.

That very project that I mentioned to you, the assessed valuation of the area was $1.8 million, and of course that goes way back to 1960, but that same area has 100,000 people and it is very productive and has an assessed valuation of about $50 million today and is paying a terrific revenue to the Federal Government. We feel that the historical investment has been probably one of the best the Federal Government has to make, has made.

Senator NICKLES. Mr. Boen, I appreciate your appearance before the committee especially coming from California.

Thank you very much.

Mr. BOEN. And I would like to add that we feel, our association strongly recommends that your committee support the enactment of S. 1981 in this session of Congress so that we can move these badly needed projects.

Senator NICKLES. Thank you very much. Our next panelist, we have Edward Osann, director of water resources for the National Wildlife Federation.

All of our panelists, if we could keep our remarks kind of brief it would be appreciated by this Senator. Mr. Osann, thank you for appearing before the committee again.

Mr. OSANN. Thank you, Mr. Chairman. Accompanying me today is Mr. James Stensland from our office who assisted in the preparation of this testimony.

I have a prepared statement, Mr. Chairman, which I will not attempt to read word for word.

Senator NICKLES. We will put it in the record.

Mr. OSANN. But rather hit the high spots for the benefit of the committee.

Senator NICKLES. Thank you.

STATEMENT OF EDWARD R. OSANN, DIRECTOR, WATER RESOURCES PROGRAM, THE NATIONAL WILDLIFE FEDERATION, ACCOMPANIED BY JAMES STENSLAND

Mr. OSANN. Mr. Chairman, let me say at the outset that unless my subsequent remarks be misconstrued, that we are generally sympathetic with several aspects of this, the Bureau's small loan program.

The idea of local initiative we think is beneficial, and the idea of small-scale development that is inherent in these projects is something that we look on favorably, but this bill presents an opportunity for oversight. The Bureau of Reclamation is coming in asking for a doubling of the authorization ceiling from $600 million to $1.2 billion, and we think that it is appropriate under these circumstances that the committee take a look at a number of issues surrounding the program.

Not all of these projects have been environmentally benign. It is our feeling if the program is going to fund projects that tend to be larger, it is going to fund new impoundments as opposed to upgrading of existing facilities, projects that are locally controversial, then a number of these issues ought to be addressed in greater detail. My testimony will be directed toward several specific poli-

cies that we think would be appropriate for the committee to take a look at.

Just as an example, you inquired, Mr. Chairman, in response to the Bureau's testimony, about the period for repayment of these loans and applauded the Bureau for negotiating shorter period of repayment. In fact the law allows for 50-year repayment, and notwithstanding the testimony that you have heard this morning of 25 to 30 years, the Bureau in 1983 signed a contract on the Galesford project allowing 40-year repayment period for the hydroelectric power component of that project, so this bill would present an opportunity to make a number of changes in the 1956 act that would bring the program up to that, would respond to some of the contemporary concerns that the committee might have.

With regard to our environmental concerns about the program, I would just say in general that we are concerned about the price signals that result from a program that extends subsidy for natural resource development, and we have been around the horn with the committee on a number of reclamation bills where this issue has come up and are concerned about the underpricing of water and power provided by the Federal Government, and we have found this not only in the water program but other areas such as timber, oil and gas, and so on.

Where Federal resources or commodities controlled by the Federal Government are underpriced, they tend to be overused. They tend to be wasted rather than conserved, and the subsidies tend to undercut conservation efforts. That is our general environmental concern with this program, and it underlies our general desire to have the subsidies reduced and perhaps more narrowly focused toward activities that arguably can command some, serve some kind of social purpose designed by the committee.

Another aspect of the environmental implications of this program is the issue of surplus crops. Providing federally subsidized irrigation water to farmland where surplus crops are grown in a contradiction in policy. It is a contradiction that was specifically addressed in a report mandated by the Congress by the 1982 Reclamation Amendments produced by the Department of Agriculture. It is entitled, "Production of Surplus Crops on Irrigated Land Served by the U.S. Bureau of Reclamation."

The report concluded not surprisingly that the simultaneous encouragement of farmers to grow more crops by providing subsidized water and discouraging farmers to plant more crops through the set-aside in commodities programs was costly, contradictory, and inefficient, so S. 1981 presents an opportunity for the committee to look at the interaction between these two programs.

I think there are several questions of economic merit and regional equity that the committee ought to consider. In review of the small loan program we found it useful to compare this program with programs operated by the Department of Agriculture that provided funds for similar facilities.

The Department of Agriculture has several loan programs for individual farmers and for districts and associations which is what it would be most comparable to the Small Reclamation Projects Act. Take a look at the Farmers Home Programs for soil and water con-

servation loans and for irrigation loans. A number of comparisons can be made.

The Farmers Home Program operates nationwide. It is available in all the States, whereas the reclamation program is confined to the 17 Western States and Hawaii.

The Farmers Home Program is an interest-bearing loan program, and the interest rate for the most part is set at the Government's cost of borrowing money. The reclamation program, small loan program, is for the most part a non-interest-bearing loan program.

Now there has been some discussion here of the interest rates that are required under the 1956 act, and Senator Ford had a question about this specifically as to what the rate was.

Well, the rate only applies to the interest-bearing portion of the loan, and the interest-bearing features of the loan only relate to municipal-industrial supplies, hydroelectric power, recreation, fish and wildlife. The bulk of the funds, 75 percent of the funds I believe was the figure used by the Bureau are for irrigation investment and irrigation investment is non-interest-bearing, so you have a program that is predominantly operating at zero interest rate through the Bureau whereas the Farmers Home Program carries an interest rate component which is close to the Government's cost of borrowing money.

There is no means test for the district or the participant in the Bureau program, whereas the Farmers Home program involves a credit elsewhere test, yet despite these, the sum of these conclusions is that we have a program that is geographically more narrow in scope and has financial terms that are less advantageous to the Government.

The Bureau program budgeting tends to go, has tended to go up over the last several years. The Farmers Home Program, the budgeting has tended to go down. We are providing less funding for that program and more funding for the Bureau program.

As far as the, just to elaborate on the point regarding the lack of a means test and the inability of certain applicants to obtain credit elsewhere, we took a look at the most recent batch of loans that were approved by the Interior Department in 1982 and found that half of them approved under this act, the applicant had a bond rating of the letter A, suggesting that they did, in fact, have access to credit elsewhere. The Fallbrook Public Utility District, for instance—so the program is not operated on a means tested basis even though the subsidy is fairly substantial.

At this point I guess I would just suggest that there are a number of areas that we would call to the committee's attention in terms of addressing them in this legislation, certain reforms that we would suggest the committee consider, the first one being one that has been recommended this morning by the administration, and that is to restore the market unit interest rate for the interest-bearing component of the loans.

Second, we would suggest that the committee consider establishing an appropriate level of interest for all new loans for irrigation. Even under the disaster programs a farmer owner operator whose establishment is wiped out, there is an interest rate component through Farmers Home of 5 percent minimum, and yet we are

talking here about potentially $450 million that we can carry forward the ratio of irrigation to nonirrigation in this program and apply it to that new $600 million spending authority that the Bureau is seeking, $450 million here that would go to non-interest-bearing loans.

Third, we would suggest that the committee explore the prospects for barring the use of new loans for the delivery of water to surplus crops. Another possible way of dealing with this issue would be to charge full market unit interest rate for those facilities that deliver water to surplus crops, and this was the recommendation that came out of the study mandated by the committee in the 1982 Reclamation Amendments. They suggested the full cost money be charged.

Senator NICKLES. I need to get this hearing on the move unless Senator Melcher can take my place because I have some other commitment. I am going to have to scoot out. We have two other witnesses.

Senator Melcher, do you have some time? If you go ahead and finish, I will talk to Senator Melcher and see if I can——

Mr. OSANN. I am finished, Mr. Chairman.

[The prepared statement of Mr. Osann follows:]

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NATIONAL WILDLIFE FEDERATION
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STATEMENT OF EDWARD R. OSANN
DIRECTOR, WATER RESOURCES PROGRAM
NATIONAL WILDLIFE FEDERATION
ON S. 1981
TO AMEND THE SMALL RECLAMATION PROJECTS ACT,
BEFORE THE
SUBCOMMITTEE ON WATER & POWER
COMMITTEE ON ENERGY & NATURAL RESOURCES

UNITED STATES SENATE

September 20, 1984

My name is Edward Osann. I am the Director of the National Wildlife Federation's Water Resources Program. The Federation is America's largest conservation organization with over 4 million members and supporters nationwide, and 51 affiliated state organizations.

Mr. Chairman, I appreciate the opportunity to testify on S. 1981. This bill would double the appropriation ceiling for loans under the Small Reclamation Projects Act of 1956, from $600 million to $1.2 billion. Let me state at the outset that we are sympathetic with several aspects of this program, notably the concepts of local initiative and small-scale development inherent in these projects. Furthermore, we recognize that many loans have upgraded existing systems and reduced water distribution losses.

However, not all loan projects are environmentally benign, and larger projects are now more commonplace. Several policies embodied within this program deserve careful scrutiny before Congress acts to sharply increase its authorization. My testimony will be directed toward the specific policies within the Small Projects loan program, and toward recommendations for reforms that would produce a more balanced and responsible program.

Environmental and Economic Impacts of Interest-Free Irrigation Loans

Environmental

The majority of funds loaned under the provisions of the Small Reclamation Projects Act are directed to water projects intended to supply irrigation water. Irrigation loans under this Act bear no interest if they provide water to individual

farms below the generous acreage limits set by the 1982 Reclamation Act Amendments. Over the long run, this policy has detrimental effects upon water resource management by undercutting water conservation efforts. The biggest single consumptive use of water in the United States by far is irrigation. By shielding water users from the true cost of federal irrigation loans, the Small Reclamation Projects Act loan program encourages higher levels of investment in new irrigation projects than would otherwise be the case. The public subsidy to private developers inherent in the no-interest loans skews project selection away from the most cost effective investments toward those with marginal benefits. This results in the scarce water resources of the west being developed by projects of questionable priority. Water waste instead of conservation may be the outcome.

Providing federally subsidized irrigation water to farmlands where surplus crops -- targeted for Department of Agriculture crop reduction programs -- are grown is a glaring contradiction which should be addressed by this subcommittee. This muddled policy was specifically dealt with in a February 1984 report entitled "Production of Surplus Crops on Irrigated Land Served by the U.S. Bureau of Reclamation." This report was prepared by the Economic Research Service of the Department of Agriculture, as mandated by Congress. The report concluded that the simultaneous priorities of encouraging farmers to grow more crops by providing subsidized water and discouraging farmers to plant more crops through set-aside programs are costly, contradictory, and inefficient. In our judgment, S. 1981 offers a good opportunity to address the contribution of the Small Reclamation Projects Act to this underlying contradiction between the Reclamation program and USDA commodity programs.

Economic .

The economic equity, efficiency, and appropriateness of extending interest-free loans to one region of the country should be examined by this committee. The amount of government revenues lost through lack of interest on repayment of long-term irrigation loans is substantial. The justification for this policy in light of the burgeoning federal deficit is hard to fathom. Additionally, the fairness of allocating interest-free irrigation loans only to the 17 western states and Hawaii is questionable. Similar irrigation loan programs administered nationwide by the Farmer's Home Administration (FmHA) under the Department of Agriculture have interest rates based upon the full cost of borrowed funds. Even FmHA loans made to low income and beginning farmers require interest, though at a reduced rate.

Prospective recipients of Small Reclamation Projects Act loans are not required to establish a documented financial need for these subsidized loans. On the other hand, applicants for

loans under FmHA programs must pass a stringent "credit-elsewhere" check in which inability to obtain credit at other established banking institutions must be shown. It should be noted that local sponsors for three of the six new Small Project loans approved in 1982 have a bond rating of "A." This indicates that a strong investment market -- apart from federal loans -- exists for these sponsors, the Fallbrook Public Utility District, Ramona Municipal Water District, and Yuba County Water Agency.

These policy contradictions result in certain water developers in the western States receiving government loan subsidies generated by taxpayers nationwide. Action by Congress should be directed at realigning the Bureau of Reclamation's Small Projects irrigation program in order to achieve a fiscally sensible loan policy which encourages resource conservation.

Lack of Cost-Sharing Requirements

The Small Reclamation Projects Act contains no provisions for minimum up-front cost sharing on the part of loan recipients, except for a $1,000 loan application processing fee.* The National Wildlife Federation has consistently supported the concept of cost-sharing as a key ingredient in improving the selection process for federal water projects. Requirements for greater non-federal cost-sharing in the Bureau's loan program can be useful as well, resulting in more careful non-federal review and evaluation of proposed projects.

The report by the House Committee on Interior and Insular Affairs on the companion bill, H.R. 4444, states that the average non-federal share for loans over the past 10 years has been 20%, and up to 40% for single-purpose irrigation projects. However, as the accompanying table shows, cost-share levels for the most recent loans approved under the Small Projects Act vary widely:

Loan Recipient	Total Project Cost	Total Federal Loan	Percent Cost-Share
Fallbrook Public Utility District, CA	$12,965,000	$12,065,000	7%
Buffalo Rapids Irr. District, MT	1,485,000	1,400,000	6%
Roosevelt Irrigation District, AZ	10,810,000	10,515,000	3%

*If adjusted to account for increased costs since 1956, this fee would approach $5,000 today.

Loan Recipient	Total Project Cost	Total Federal Loan	Percent Cost-Share
Ramona Municipal Water District, CA	22,319,000	18,919,000	15%
Columbia Irrigation District, WA	4,264,000	3,306,000	22%
Yuba County Water Agency, CA	28,236,000	21,482,000	24%

These figures come from an October, 1982 Department of Interior news release. A minimum cost-sharing requirement for local project sponsors would make limited federal dollars go further, and would provide corroboration from the marketplace for the Bureau's findings of feasibility for loan projects.

Low Rate On Interest-Bearing Loans

Portions of some loans under the Small Reclamation Projects Act do bear interest. These consist of loan amounts allocated to municipal and industrial water facilities, hydroelectric power, fish and wildlife enhancement, and public recreation. The interest rate on these loans was set by a 1966 amendment (P.L. 89-553) at the average "coupon rate," a figure which is now 1 to 2 percentum below the average "market yield." The market yield formula more accurately reflects the rate the Department of the Treasury will pay to borrow money in order to provide funding for programs such as irrigation loans. The following are recent precedents for adoption of the "market yield" formula for computing interest rates for water project repayment:

1. Department of Energy Order RA 6120.2 - delineates use of market yield as the interest rate for repayment of federal hydroelectric power projects, October 7, 1983.

2. Frenzel Amendment on Hoover Dam, H.R. 4275, incorporated into Udall Amendment, May 3, 1984, and accepted by the Senate July 31, 1984;

3. Metzenbaum Amendment on Reclamation Dam Safety Bill, H.R. 1652, August 9, 1984, and approved by the House August 10, 1984;

4. Administration position on Colorado River Basin Salinity Control Bill, H.R. 2790, by letter of July 27, 1984;

5. Comparable FmHA loans. The Soil & Water and Irrigation & Drainage Association loan programs both base interest rates for loan repayment on the market yield formula.

Continued use of the lower coupon rate for amortization of interest bearing loans will result in substantial losses of Treasury revenues.

NWF Recommendations

We urge that the following issues be addressed in legislation dealing with the Small Reclamation Projects Act:

1) Restore the "market yield" rate as the standard repayment rate for all new loans now required to bear interest under the Small Reclamation Projects Act.
2) Establish an appropriate level of interest for all new loans for irrigation.
3) Bar the use of new loans for the delivery of water to surplus crops.
4) Set a minimum non-federal share for overall project costs.
5) Develop a cost ceiling and comparable reform measures for loans authorized under PL 84-130, the Bureau's other loan program, encompassing distribution and drainage facilities.

Conclusion

The National Wildlife Federation is opposed to the enactment of S. 1981 in its present form. We urge the committee to consider the amendments we are recommending for the Small Reclamation Projects Act which will advance both recovery of government revenues and natural resource conservation.

We look forward to working with this committee on a bill that we can support actively.

Senator NICKLES. I appreciate your comments, and I think you have made some good suggestions. I had the chance to browse through your statement briefly this morning, and I think you do have some suggestions that this Senator will take a look at concerning surplus crops and whether or not we should have an interest rate on irrigation.

You were talking about enforcing a means test, or are you talking about a means test that the effect would be that they shouldn't receive the subsidized interest for these projects if they are able to basically finance it within their own? If they have the wherewithal, the bond rating, et cetera, that they can borrow it out in the private sector they should do so?

Mr. OSANN. We believe the subsidy, if there is to be a subsidy in the program, it ought to be targeted to accomplishing some fairly evident social purpose. In other words, if you are providing a subsidy to serve low-income recipients, that is one thing. If you are providing a subsidy that is available on a nonmeans tested basis, that is quite another.

Senator NICKLES. You also want to have a significant contribution up front?

Mr. OSANN. Yes.

Senator NICKLES. Are those two contradictory?

Mr. OSANN. I don't believe so.

Senator NICKLES. I mean if you are only going to give the program to those who are destitute or not able to finance and then you also are requiring a large up-front contribution, or are you saying maybe either/or?

Mr. OSANN. The committee can consider the range of options. There is no minimum contribution for the program right now other than the application fee which is $1,000.

Senator NICKLES. Do you agree with the administration that they have been exacting I guess larger percentages of up-front over the last few years?

Mr. OSANN. The record looks quite mixed to us, Mr. Chairman. They have approved a number of them that have up-front contributions of less than 10 percent. In other words, they are financing over 90 percent of the project costs.

Senator NICKLES. And in some of those most of the upfront costs were the application expenses and engineering?

Mr. OSANN. That is what it appears to be, yes.

Senator NICKLES. Thank you very much again for your appearance, and Senator Melcher, for your assistance this morning. I appreciate that as well.

Senator MELCHER [presiding]. I have a couple of questions.

Mr. Osann, do I detect that you have some prejudice against irrigation?

Mr. OSANN. Prejudice against irrigation—I don't believe so. I think it is a worthwhile expenditure, a worthwhile purpose for water resources development.

Senator MELCHER. Fine. I was hopeful that would be your answer.

What was your reference to surplus crops?

Mr. OSANN You would like us to elaborate on that particular point?

Senator MELCHER. You made a reference to surplus crops. I didn't understand what significance that had.

Mr. OSANN. The 1982 Reclamation Amendments directed the Department of Agriculture to study the issue of surplus crops produced through the reclamation program and to explore whether there were policy contradictions there and what might be done about them.

Senator MELCHER. Did you support that amendment?

Mr. OSANN. Yes, we did.

Senator MELCHER. So you think that it is wise to worry about surplus crops through the reclamation program?

Mr. OSANN. Yes, sir.

Senator MELCHER. Do you feel that we have adequate supplies of food in the United States?

Mr. OSANN. I wouldn't, I don't think I am prepared to comment on the adequacy of the supplies of food. We have programs that annually designate by the Secretary of Agriculture crops in surplus.

Senator MELCHER. Pardon me?

Mr. OSANN. Under existing law the Secretary of Agriculture annually designates certain crops as being surplus.

Senator MELCHER. And are most of those crops on irrigated farms?

Mr. OSANN. In absolute terms I am sure they are not.

Senator MELCHER. But you do have a concern. I will answer the question. We have adequate supplies of food. We have a surplus of food in this country.

Do you think there is a surplus of food in the world?

Mr. OSANN. Just speaking as a layman on that subject, I would say no.

Senator MELCHER. That is correct, so then there is some goal for more supplies of food, is there not?

Mr. OSANN. In a global sense, that is correct.

Senator MELCHER. That's right. You don't testify before any of the committees that deal with that, do you?

Mr. OSANN. No, sir.

Senator MELCHER. Now speaking for the Wildlife Federation, since I assume, and I think you have already intimated in your testimony, that most of these would be in the Western States, isn't there a need for wildlife, particularly wild fowl?

Mr. OSANN. That would depend upon the project site.

Senator MELCHER. I am not speaking about anything specific. Is there a need? I come from Montana, larger probably than most countries of the world. Isn't there a need for more water in Montana, for wild fowl?

Mr. OSANN. I guess I would respond to the question by saying that water and wetlands are a critical part of the life cycle for, certainly for migratory water fowl, if that is what you are interested in.

Senator MELCHER. Don't ducks and geese nest around these impoundments?

Mr. OSANN. Absolutely.

Senator MELCHER. Isn't there more need for them?

Mr. OSANN. There may not be a greater need for deep water impoundments in a given area, but wetlands maybe.

Senator MELCHER. What is deep water?

Mr. OSANN. Standing water where there is no emerging vegetation.

Senator MELCHER. Isn't there emerging vegetation around every one of these little reservoirs?

Mr. OSANN. Not necessarily.

Senator MELCHER. Pardon me?

Mr. OSANN. Not necessarily, Mr. Chairman; all reservoir shores are not suited for the development of wetlands, for instance.

Senator MELCHER. You say wetlands, and I think people have different concepts of what a wetland is. I am talking about the reservoirs in Montana which as I said, is bigger than most of the countries on earth.

Isn't there a need for more? Because around them are always weeds and plants and ducks and geese like to nest.

Mr. OSANN. I do not know whether there is or is not a need for more reservoir impoundments for wildlife purposes in Montana. I will be glad to explore that question and provide it for the record.

Senator MELCHER. Well, there is, but we don't need to explore it. There just is. The more we get, the better off we are as far as the duck habitat and geese habitat.

That is the only point I wanted to make. There are a lot of reasons to look at water impoundments in these small projects. Ducks and geese are part of it. I assume that the Wildlife Federation is as interested in ducks and geese as they are in anything else.

Mr. OSANN. Mr. Chairman, I am left with the distinct impression that our remarks and our testimony here may be misconstrued.

We support the management of wildlife habitat. We recognize water resource development as a useful tool for water fowl and for wildlife enhancement.

Senator MELCHER. I am speaking about the general public's interest in wildlife.

Mr. OSANN. Yes.

Senator MELCHER. So there is a public purpose?

Mr. OSANN. Yes.

Senator MELCHER. You speak in favor of the bill. You speak in favor of a higher interest rate which I dare say will cancel most of the projects.

Mr. OSANN. I don't know whether a higher interest rate will cancel out most of the projects or not.

Senator MELCHER. It would in Montana. It would in my State, and in my State because it is that large, it is important for wildlife, and it is pretty important for the migratory birds. There are probably more migratory birds that spend part of the year with us, sometimes the whole year surprisingly. In this decade, the decade before us, 100 years before, because there was more water, little reservoirs and they all had them. I am glad that Congress during difficult times had the foresight to override objections of those people who thought a public investment of the low-interest loans was bad medicine.

Congress didn't think that way so we have these reservoirs. Perhaps a lot of people think this is unimportant, but it is a help for wildlife. All I want to say is that your testimony as far as I am concerned is not for construction of these small projects because you want high rates of interest. I don't even know how you can get one going at 10 percent, let alone higher than that. The testimony, in effect, is saying that you really don't want them.

I don't know why the National Wildlife Federation should be that way because I think it ought to be interested in the very broad aspects of the public benefit. I am here to tell you that in my state we benefit from them, and one of the benefits that the public appreciates is the increased migratory bird population.

Thank you very much.

Mr. OSANN. Thank you, Mr. Chairman.

Senator MELCHER. Mr. Ken Manock and Mr. Bob Lee are both testifying on the Pleasant Valley Water District, and I think we will see them both at the same time. Mr. Manock?

Mr. MANOCK. Mr. Chairman, I think I will allow Mr. Lee to go first.

Senator MELCHER. All right.

STATEMENT OF BOB LEE, MEMBER, BOARD OF DIRECTORS, PLEASANT VALLEY WATER DISTRICT, COALINGA, CA

Mr. LEE. Mr. Chairman, members of the committee, I am Bob Lee, a member of the Pleasant Valley Water District board of directors. I am a resident of the Pleasant Valley. I have been a farmer for all my adult life, and I am pleased to finally be able to present this testimony in support of Senate bill 2643.

The farmers in Pleasant Valley Water District which has been farmed since the turn of the century need a permanent water

supply from the California Central Valley project if they are going to continue in business. Senate bill 2643 will provide the first step.

I am not going to read all my statement. I would like to enter it for the record, but I would like to hit a few highlights if I may and give you a little history about Pleasant Valley and one of the reasons that we are in today to try to get this bill passed this year.

Pleasant Valley is a valley of approximately 35,000 acres of irrigated farmland. Its first water well was drilled in the 1920's. Since that time, the underground water supply has diminished. The quality is poor. We are getting some salt in the water. Our production is lowering, and there is only two basic crops that we grow in the region now. It is cotton and grain crops. These crops, some of them, are under Government support. We feel that if we could get a permanent water supply from the Bureau of Reclamation we could go into more diversified crops such as melons, vegetables, something that would increase our labor force from approximately 600 people to approximately 2,500 people, so we would increase the jobs in the Coalinga area by about 2,000.

The timing for this bill is very important for Coalinga. We had an earthquake, as most people know, in May 1983, and it leveled our downtown area. Our merchants are trying to rebuild. They don't know if they can afford to rebuild because the economy of Coalinga is bad, and we feel with permanent water or permanent water supply we can surely increase the economy and these merchants will have more faith in the economy, and will reinvest in our downtown area.

Also Chevron after a series of years—we have been negotiating with Chevron Oil since 1963 about coming into the Federal project. After the earthquake and urging from Senator Cranston and Congressman Quaylo, and the help of Senator Wilson, they have agreed now to come under the reclamation law, so right now we are in a position to come before you and say that Pleasant Valley is in a position to come under the Reform Act of 1982.

Our water costs in the Coalinga Basin, to give you an idea of what the farmers go through, we are spending approximately $80 an acre-foot for water, so if we don't get something going on a permanent basis, our farms are going to be going back into desert.

I have a particular problem why I got active into the project and became involved in the board of directors of Pleasant Valley. I have four children. It so happens the youngest of my children wants to be a farmer. He is a freshman in high school. If we do not get this bill, I am afraid I have either got to tell him not to beome a farmer or he is going to have to move out of our area if he wants to stay in farming, so I am very interested in getting this bill passed, and it is a real need for the community of Coalinga.

We also have a junior college there which has an extensive ag program. They need the water to continue to do their farming. The students actually farm in that college program, and without good water, that program is going to be dropped, so Mr. Chairman, by approving this legislation, your committee and Congress can give a renewed hope to an area attempting to rebuild from the devastating earthquake damage.

This is why we are urging you so strongly that Congress can act this year. I respectfully ask that this subcommittee give its approval to Senate bill 2643.

Thank you.

[The prepared statement of Mr. Lee follows:]

STATEMENT OF BOB LEE
PLEASANT VALLEY WATER DISTRICT BOARD OF DIRECTORS

BEFORE THE SUBCOMMITTEE ON WATER AND POWER
OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES
SENATE
IN SUPPORT OF
S. 2643

Introduction

Mr. Chairman, Members of the Committee, I am Bob Lee a member of the Board of Directors of the Pleasant Valley Water District. I am a lifelong resident of Pleasant Valley. I have farmed in the Valley all of my adult life. I am pleased to finally be able to present this testimony in Support of S. 2643.

Summary

The farmers in the Pleasant Valley Water District, which has been farmed since the turn of the centruy, need a permanent water supply from the California Central Valley project if they are going to continue in business. S. 2643 will provide the first step.

Testimony

The people of Caolinga and the surrounding Pleasant Valley in Western Fresno County of California need your help to complete a project to secure a permanent agriculture water supply.

When the California Aqueduct was built in the early 1960's a branch was constructed to supply domestic water for Coaling and irrigation water for the Pleasant Valley Water District. The domestic system has been completed but the distribution system for the Irrigation District needs Congressional authorization. S. 2643 introduced in the Senate by Senator Cranston and Senator Wilson and a companion bill in the House of Representatives, H.R. 5386, would authorize the Water District to be included in the Service Area of the San Luis unit of the California Central Valley project. This legislation will allow the District to develop with the Bureau of Reclamation the extent and estimated cost of a distribution system which will then require further Congressional action to authorize the appropriation of construction funds.

Need for the Project

The Pleasant Valley Water District consists of approximately 35,000 acres in a valley which has been farmed since the turn of the century using the natural underground water. That source is now lowering and losing quality at such a rate that the area could return to desert within another generation. This combined with a devastating earthquake in the area in May 1983, which

leveled the downtown business area and damaged almost every home, and a declining work force to serve the surrounding oil production because of automation raises a serious question as to whether this area of approximately 10,000 population can survive at all. A firm water supply for the Water District would preserve the farming base of the local economy.

The water from the Central Valley project would be used only to preserve existing farms; it would not be used to farm land which has not been previously irrigated.

Because of the increasing depth to ground water which increases the energy costs and the deteriorating quality of the water from wells in the valley which lowers yields, only cotton and grains can now be grown at all, thus forcing a greater reliance on governmental support programs. As a result of these conditions, over the last twenty years more than half of the farmers in the area have abandoned farming or left the area and the total number of farmed acres has steadily declined. The few remaining farmers are now faced with the same decision as to whether to continue farming if a new water does not become available.

With the availability of better quality surface water, the farms in the district, which are favored with soils of the highest classification, will be able to produce the full range of row crops, including melons and vegetables, which do not require governmental supports, as well as permanent plantings when market conditions appear favorable.

With additional acreage of higher income, more labor intensive crops, the farmers will be able to provide higher paying work for the greater labor force, which will be attracted to the area. It is estimated that with a permanent supply of water, the number of farm employees, which has now dropped to around 600 in the District, will more than treble to over 2,500--that's almost 2,000 new jobs. This, in turn, will improve the economy not only for those engaged in agriculture, but also for the 10,000 citizens of the earthquake ravaged Coalinga area and those involved in the general economy of the western San Joaquin Valley.

For example, the West Hills Community College has developed a comprehensive, well regarded agricultural program, including a vocational farm for students to learn farming methods by actually farming; but this program is also threatened with extinction without better quality water. The entire college and public school system which over the years has assembled a well respected faculty, and has constructed some of the finest physical facilities in the State of California is faced with declining attendance, reflecting the worsening state of the economy of the area. The new jobs and taxes from farming will help turn that trend around.

Application of Reclamation Law

Even though the District was formed in 1963 to receive water from the California Aqueduct, and the Pleasant Valley Canal and pumping plant were built for that purpose, the District still needs a construction loan for the distribution system from the

United States under the provisions of Public Law 80-130 (69 Stat. 244; 43 U.S.C. 421a) and a water supply utilizing the San Luis unit of the Central Valley project. It has no existing long-term contract for a water supply. Therefore to qualify for Central Valley Project water the District will be subject to the Federal reclamation law, including the pricing and ownership limitations of the Reclamation Reform Act of 1982.

Chevron Corporation owns approximately 17,000 acres in the District. Without its participation and assistance in the project the repayment capability of the District would be questionable. After many years of uncertainty as to its involvement, the matter was again presented to Chevron after the May 1983 earthquake. Negotiations have now resulted in an agreement under which Chevron and the District will cooperate to make the Pleasant Valley irrigation project possible.

Subsequent to the Chevron commitment, the landowners in the District unanimously and enthusiastically supported and urged the District to do everything possible as soon as possible to secure the water supply even though it meant they will be required to comply with the Reclamation Reform Act of 1982. This will require the sale of their land in excess of 960 acres within five years, payment of the full cost of operation and maintenance of the project's share of the Central Valley project, annual payments of the amortization of the construction loan, and for any leased

land in excess of 960 acres for any one farming operation, payment of interest on the loan from the United States.

The need for a water supply for Pleasant Valley is also supported by the:

City of Coalinga

County of Fresno

West Hills Community College in Coalinga.

Water Supply

The water for Pleasant Valley would come from several facilities of the Central Valley project in Northern California, such as Shasta Dam and Trinity Dam, through the Delta of the San Joaquin and Sacramento rivers into the California Aqueduct to the San Luis Reservoir to be released when needed for irrigation through the local distribution system. For many years the Department of Interior and the State of California have been in disagreement as to the amount of water needed to insure adequate water quality in the Delta. The State and Federal governments now appear to be nearing an agreement as to how the Delta water needs will be shared. Within the near future it is anticipated that the Bureau of Reclamation will be in position to market the Central Valley project water not presently under contract. This legislation is needed now to allow Pleasant Valley to participate in the allocation of

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that water. Without it Pleasant Valley may not have a similar opportunity for generations.

Service Area

The San Luis unit of the Central Valley project was authorized in 1960 (P.L. 66-188; 74 Stat. 156) "for the principal purpose of furnishing water for irrigation of approximately five hundred thousand acres of land in Merced, Fresno and Kings Counties, California" known as the "Federal San Luis Unit Service Area." Pleasant Valley Water District was generally believed to have been included in that service area. However, in 1978, the Solicitor of the Department of Interior ruled that only the central area of the service area up to 500,000 acres was included the San Luis unit thereby excluding the Pleasant Valley area and portions of several other water districts which were already receiving water from the San Luis unit. He concluded that the service area could be expanded only by additional legislation.

Need For Legislation

With the convergence of the Coalinga earthquake, the agreement of Chevron to cooperate, the completion of the Reclamation Reform Act and the possible settlement of the Delta water quality problems, the time has now arrived to settle the service area requirement for Pleasant Valley. Without being in the San Luis service area the District cannot even do the preliminary work

with the Bureau of Reclamation to begin the distribution system project. Without the distribution system, there will be no water to replace the diminishing underground supply and this rich vital farming area will be left to return to desert.

Mr. Chairman, by approving this legislation, your Committee and Congress can give renewed hope to an area attempting to rebulid from the devastating earthquake damage. That is why we urge so strongly that Congress act this year.

I respectfully ask that this Subcommittee give its approval to S. 2643.

Senator MELCHER. Mr. Manock.

STATEMENT OF KENDALL L. MANOCK, ATTORNEY, PLEASANT VALLEY WATER DISTRICT, FRESNO, CA

Mr. MANOCK. Thank you, Mr. Chairman. I have submitted a statement which is basically a description of the legal necessity for this legislation.

In effect what this legislation would do we believe is correct a mistake. It was originally thought in the 1960's that Pleasant Valley Water District and the area that it serves was included in the service area of the San Luis unit which is part of the Central Valley project.

As it turned out, during the period of Secretary Andrus as Secretary of the Interior, a rule was issued which limited the size of that service area. As a result, even though some construction had been finished, particularly the main feature which would deliver the water to the district itself through a branch of the California aqueduct, even though that was done, the Bureau now takes the position that without legislation incorporating the district in the service area, we can't even negotiate with them for the use and completion of that project, so this is really a corrective device.

It is not intended to give us any kind of priority or advantage over any of the other competing buyers of water which is what will be potentially available to California in the next year or so, but it does get us into the ball game, and that is what we are asking.

It is a relatively simple piece of legislation. We will have to be back in Congress later to request the authorization when we know how much the project will cost, so we are looking forward to hopefully moving this legislation this year, and the House of Representatives hopefully will have a bill in the full committee and marked up next week, and we will be looking forward hopefully to getting this legislation passed in the few remaining days of this session.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Manock follows:]

STATEMENT OF KENDALL L. MANOCK

ATTORNEY FOR PLEASANT VALLEY WATER DISTRICT
REGARDING LEGAL JUSTIFICATION FOR S. 2643

BEFORE THE SUBCOMMITTEE ON WATER AND POWER
OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES
SENATE
IN SUPPORT OF

S. 2643

Summary

The proposed legislation S. 2643 introduced in the Senate by Senator Alan Cranston and Senator Pete Wilson would extend the service area for the San Luis Unit of the Central Valley Project in California and clarify that a distribution system loan under Public Law 84-130 will be permitted, when Congress has authorized the appropriation for the distribution system and the Secretary of Interior has approved the loan application.

The legislation is necessary because:

1. Central Valley Project water is available to the Pleasant Valley Water District only through the San Luis Unit;

2. The act authorizing the San Luis Unit, has been interpreted by the Solicitor of the Department of Interior, as limiting the service area of that unit to the original 500,000 acres mentioned in the act which would exclude the area served by the Pleasant Valley Water District.

3. The language of Section 8 of the San Luis Act could be interpreted as the exclusive means by which a distribution system in the San Luis Unit can be financed.

The San Luis Act

The portions of the San Luis Act (act of June 3, 1960, Public Law 86-188, 74 Stat. 156) relevant to H.R. 5836 and S. 2643, as it provides for the service area, as follows:

> [Sec. 1. (a) San Luis Unit authorized--Restrictions on construction of Federal electric transmission or distribution facilities--Joint use facilities with State of California--Conditions precedent to construction--State responsibility.]--For the principal purpose of furnishing water for the irrigation of approximately five hundred thousand acres of land in Merced, Fresno, and Kings Counties, California, hereinafter referred to as the Federal San Luis unit service area, and as incidents thereto of furnishing water for municipal and domestic use and providing recreation and fish and wildlife benefits, the Secretary of the Interior (hereinafter referred to as the Secretary) is authorized to construct, operate, and maintain the San Luis unit as an integral part of the Central Valley project. The principal engineering features of said unit shall be a dam and reservoir at or near the San Luis site, a forebay and afterbay, the San Luis Canal, the Pleasant Valley Canal, and necessary pumping plants, distribution systems, drains, channels, levees, flood works, and related facilities . . . .

The "Pleasant Valley Canal, and necessary pumping plants" refers to what is now known also as the "Coalinga Canal." It is a branch of the California Aqueduct from which water is pumped through the Pleasant Valley pumping plant to the Pleasant Valley Canal.

The Special Task Force Report on the San Luis Unit, required by Public Law 95-46, concluded in 1977 that both the Pleasant Valley Canal and Pumping Plant were authorized under Section 1 of the San Luis Act. However, the Task Force held that the construction of any distribution system to lands in excess of the 500,000 shown in the Feasibility Report of the San Luis Unit was "done without proper congressional authorization."

The Report of the Task Force was followed on June 1, 1978, with a formal opinion signed by Leo Krulitz the Solicitor of the Department of Interior at that time. He rejected the arguments of the Regional Solicitor in Sacramento and overruled his

memorandum of October 30, 1962, in which it had been held that more than 500,000 acres mentioned in Section 1 of the San Luis Act could be included in the service area. The Regional Solicitor had relied on the references of the act to the "Central Valley Project," the San Joaquin Valley generally and congressional appropriations after the San Luis Act was passed to justify construction outside the original 500,000 acres.

Solicitor Krulitz, relying on National Wildlife Federation Andrus 440 F.Supp 1245 (D.D.C. 1977) which rejected the theory of authorization by appropriation without full knowledge of Congress, said that the agency must "act affirmatively to bring the matter directly to Congress attention and the request clarifying legis tion" (p. 25) and concluded that "once Congress has been relatively specific in authorizing a project, it takes equally specific action by Congress to change that authorization . . ." and that "Congress may well have been, and still be, amendable [sic] to increasing the size of the service area because more land is irrigable than originally thought, but is a decision for the Congress to make--and a decision it must make affirmatively, rather than silently."

The Solicitors memorandum does not mention the Pleasant Valley Water District and its relationship to the San Luis Unit service area. But the area which he found to be outside the service area is between Pleasant Valley and the California Aqueduct which was generally the western limit of the 500,000 acres

mentioned in Section 1 of the San Luis Act. It therefore follows that since the Solicitors opinion has not been reversed, additional Congressional authority is needed to include Pleasant Valley Water District within the service area of the San Luis Unit.

Authority For Distribution System Loan

Section 8 of the San Luis Act authorizes the appropriation for the construction of works of the San Luis Unit:

> "other than distribution systems and drains, the sum of $290,430,000, plus such additional amount, if any, as may be required by reason of changes in costs of construction of the types involved in the San Luis unit as shown by engineering indexes."

but for the distribution systems indexing is not provided. The third sentence of Section 8 provides:

> "There are also authorized to be appropriated, in addition thereto, such amounts as are required (a) for construction of such distribution systems and drains as are not constructed by local interests, but not to exceed in total cost the sum of $192,650,000. . . . Provided, That no funds shall be appropriated for construction of distribution systems and drains prior to ninety calendar days (which ninety days, however, shall not include days on which either the House of Representatives or the Senate is not in session because of an adjournment of more than three calendar days to a day certain) after a contract has been submitted to the Congress calling for complete repayment of the distribution systems and drains within a period of forty years from the date such works are placed in service."

The sum of $192,650,000 has now been exceeded (See The San Luis Task Force Report, p. 230).

Distribution system loans are generally authorized in P.L. 84-130 (Act of July 4, 1955 Ch. 271, 69 Stat. 244; 43 U.S.C. 421a et seq.). Section 1 of that Act provides that:

> "Irrigation distribution systems authorized to be constructed under the Federal reclamation laws may, in lieu of construction by the Secretary of the Interior . . . be constructed by irrigation districts or other public agencies according to plans and specifications approved by the Secretary as provided in this Act."

Section 2 provides that:

> "To assist financially in the construction of the aforesaid local irrigation distribution systems by irrigation districts . . . the Secretary is authorized, on application therefor by such irrigation districts . . . to make funds available on a loan basis from moneys appropriated for the construction of such distribution systems to any irrigation district . . . in the amount equal to the estimated construction cost of such system, contingent upon a finding by the Secretary that the loan can be returned to the United States in accordance with the general repayment provisions of sections 2(d) and 9(d) of the Reclamation Project Act of August 4, 1939, ..."

While it should be presumed that Pleasant Valley Water District would be qualified to make application for PL 84-130 loan, the reasoning of Solicitor Krulitz in his June 1, 1978 Memorandum may have to be dealt with. It could be argued that Section 8 of the San Luis Act prescribes the exclusive method of Congressional funding for the San Luis Unit.

To avoid that problem, a clear Congressional authority as part of the service area authorization would clarify and settle the issue. Section 2 of S. 2643 is intended to clearly authorize use of P.L. 84-130 by the Pleasant Valley Water District as part of the San Luis Unit.

It should be noted that Section 2 of S. 2643 does not index the $192,500,000 limit of Section 8 of the San Luis Act nor does it otherwise authorize an appropriation for Pleasant Valley Water District. When the Secretary and the District have agreed on the sum required, Congressional authority will then be requested.

Senator MELCHER. Do we have a map of the present boundaries of Pleasant Valley Irrigation District?

Mr. MANOCK. We do.

Senator MELCHER. You have it but we don't?

Mr. MANOCK. Yes. We will make that a part of the record.

Senator MELCHER. Will you do that?

Mr. MANOCK. Yes, we certainly can.

Senator MELCHER. The bill appears to set no definite boundary for the service area that would be added to the San Luis.

How much water are you going to need to service the district?

Mr. MANOCK. We think in the neighborhood of 80,000 acre-feet to 100,000 acre-feet.

Senator MELCHER. Mr. Lee, you said that water costs you $80 an acre-foot. You grow principally cotton?

Mr. LEE. That is correct.

Senator MELCHER. You grow one crop?

Mr. LEE. The way that our district pumping plants are, of roughly 35,000 acres, approximately only 25 percent of that ground is going into summer crop.

Senator MELCHER. Is going to what summer crop?

Mr. LEE. Summer crop, so approximately 8,000 or 9,000 acres—35 is going to summer crop, which is cotton, because we do have some salt in the water which is not a lot, but it does hamper us from growing vegetables now, so basically a lot of our ground is summer crop, and we do have some ground that we grow grains on, but with high-priced water, we just can't grow the grains anymore, and with the increase of P&E costs coming as of January 1985—we are supposed to be at 9½ cents a kilowatthour—our water cost is going to be above $80 an acre-foot, so we are putting out roughly $230, $250 into just the water costs in the cotton crop, so the farmers are going broke in that area.

Senator MELCHER. It is just one crop?

Mr. LEE. One crop, that is correct.

Senator MELCHER. There is no double cropping?

Mr. LEE. No, sir.

Senator MELCHER. Does it take an acre-foot?

Mr. LEE. It takes about 2½ acre-feet, Senator, for the cotton crop.

Senator MELCHER. About $80 currently covers the cost of pumping, the electrical bill?

Mr. LEE. That is correct.

Senator MELCHER. Is that double or triple the price?

Mr. LEE. Well, from our original rate of this summer, it is going to go up 33 percent.

Senator MELCHER. What was it 2 years ago?

Mr. LEE. We were roughly about 6.8 cents a kilowatthour.

Senator MELCHER. Overall it is going to increase about 50 percent for the 3 years?

Mr. LEE. That is correct.

Senator MELCHER. So you are be looking at a little over a 100 hours?

Mr. LEE. That is correct, sir.

Senator MELCHER. That requires 2½——

Mr. LEE. 2.5 acre-feet; a lot of years they put as much as 3 acre-feet on a cotton crop, but we don't have that much water to put on.

Senator MELCHER. You mentioned Chevron several times. They own about half the land there?

Mr. LEE. That is correct.

Senator MELCHER. What are they doing with it? Are they getting ready to comply with the law and disburse all that land?

Mr. LEE. That's right. We negotiated in 1963 with the Bureau to come under the reclamation law at that particular time, and we had a Chevron representative on our Board, and we thought all along they would go along and sign the recordable contract for the particular project.

In 1967 they decided that they didn't want to sign the recordable contract, so the negotiation stopped at the Bureau of Reclamation, so until 1983 that was the status of our water district.

Now with the devastating earthquake and Standard Oil realizing or Chevron realize the need for water, they have agreed now to come under recordable contract if they can retain their mineral rights.

Senator MELCHER. In other words, it was Standard in 1963, wasn't it?

Mr. LEE. Standard Oil, yes, sir.

Senator MELCHER. It was Standard of California. Then it merged to become Chevron?

Mr. LEE. That is correct.

Senator MELCHER. What are they doing, if anything, at this point in breaking up the ownership of that land?

Mr. LEE. Well, Ken, do you want to answer that?

Mr. MANOCK. Mr. Chairman, the answer is they are waiting basically for this legislation. Without the delivery of project water to the Federal facility, of course, they are not obligated to sell the land, but in order to get any benefit at all from the project, they must sign the recordable contract under which they would agree to sell their property within 5 years as far as any excess land is concerned, and they have agreed to work with the district so that we can adjust boundaries and come to a solution that will be satisfactory to them so they can comply with the law.

Senator MELCHER. Let's see. Would it be 5 years from the time they got Federal water or 5 years——

Mr. MANOCK. Under the new reclamation format, it is 5 years from the time water is delivered.

Senator MELCHER. Delivery of water, all right; I am going to ask this question for the record because it is significant to some people who will be reading the record.

Have all landowners indicated that they would be willing to comply with pricing and acreage limitations of the reclamation law?

Mr. MANOCK. That is one question we can answer absolutely. We had 100 percent representation at the meeting of the landowners of the area, and there was a unanimous consent to go forward with this project after we went into all the details of the new law.

As a matter of fact, this would be in California if this legislation be passed now, will be probably the first district to sign a contract which will be totally under the new Reclamation Reform Act.

Senator MELCHER. I think that's good for the record. It is a very clear statement and easily understood.

Placed in the hearing record today was a copy of the letter that the committee received from the Environmental Defense Fund. The letter is highly critical of the passage of S. 2643.

Now the chairman has directed the staff to provide you a copy of it. We would appreciate receiving for the record your comments or observations regarding the Environmental Defense Fund's views because their criticism is rather specific. We would like to have your observations if you care to make them in response to that criticism.

Mr. MANOCK. We would be most happy to, Mr. Chairman. The letter dated August 20, 1984, provides that or charges that this would be a piecemeal approach that is being suggested, and that Standard Oil would be getting special treatment because of this legislation.

Well, first of all, this is not a piecemeal approach in the sense of solving the problem. This is merely a bill which would get us started so that we could negotiate for a solution to the problem in the Bureau of Reclamation. There is no other way for us to deal with this problem, and the most logical way to solve it is to allow us to be within the service area, No. 1, negotiate with the Bureau about the various requirements to complete the project.

When that is completed, we will be back to Congress with specific authorization for the amounts of money that are needed to fund the program.

Standard Oil, of course, will receive no benefit from this property except during that 5-year period when they are subject to the recordable contract, and the traditional way in which the Reclamation Act has always worked since the turn of the century is that in return for signing the recordable contract and in return for receiving the water, the large owners such as Standard Oil simply must sell their land at a price which does not reflect the project benefit, so even though this land will be enhanced in value by reason of the delivery of Federal water, Standard Oil will not be able to sell their land at that increased price.

The next question that was raised was that this was being done without regard to the water quality in the bay. That is the Sacramento, San Joaquin River Delta, and the San Francisco Bay into which that feeds.

The fact of the matter there as pointed out by the Department earlier in Commissioner Olson's remarks is that before this water can be delivered to the area, there must be agreement between the United States and California which will settle the issue of water quality for the delta, so that will be a precondition and it will have to meet that in order to solve that particular requirement.

They also mention that cotton is a surplus crop similar to the issues that we just had here, mentioned in one of the other legislation that was discussed.

The fact of the matter is that their area is producing cotton at the present time and grains because of the fact that they have limited water supply and poor quality water. With this water they will be able to expand that production into areas where there is no surplus at all such as vegetables and melons and potatoes and other products which are sorely needed for not only the United States but the world consumption, and of course, agriculture is one of our

biggest export products and we do produce a variety of crops, but with bad water or limited water you are limited to those crops which generally do get into the surplus category.

If we can get the good water into the good soil that this area has, these farmers will be able to produce crops that will not be in that category.

There is another charge that the farmers will abandon the current conservative practices because the water prices will go down.

I would suggest to you that if water prices go down to no more than say $50 an acre-foot as they are here, that is still going to be such a high price that water conservation is absolutely going to be essential regardless. The only thing that this will benefit is eliminate some of the high costs relating to the power costs for individual delivery, so I can't imagine that farmers paying close to $50 an acre-foot for this water under the new act will not continue to be conservative.

There is also a charge that the, that the cost that is being estimated for this project is still not a fair price for water being charged to California.

That is a figure which is estimated at this time. We do not know what the Bureau will finally tell us the price will be. That whole pricing policy under the new act is presently the subject of negotiation, and I am sure that whatever the price is that is allocated agriculture will be a fair price and one that will be appropriate because the Bureau is insisting under the present policies that the costs of water be raised to an appropriate level. That is something that will result in the future.

And the final point was that this would authorize, well, there is a companion bill in the House—let me put it this way—which this letter refers to which has an authorization in it for a study for the Mid-Valley Canal. He claims that that is an authorization of that particular project.

There is no such thing. It is merely a study program. This committee has already approved a similar study, so I would say just in summary that it seems to us that the Environmental Defense Fund in raising these issues simply hasn't studied the legislation sufficiently to know what it does.

Senator MELCHER. I thank you for those comments. They are helpful to the committee.

When you spoke of Standard, I think we should say Chevron.

Mr. MANOCK. Yes. As of, I think it was about a month ago they changed their name to Chevron.

Senator MELCHER. Right, so the price of the land when it is sold, assuming that Federal water comes, Bureau water comes to the project triggering the 5-year period for the disbursal of the land, the sale of the land with Chevron down to 960 acres and no more than that, will be based on the value of the land without the water that we are speaking of becoming available?

Mr. MANOCK. That is correct.

Senator MELCHER. That is correct. That is the law.

Mr. MANOCK. As a matter of fact, under the Reclamation Reform Act, Standard will be entitled to only 600 acres as a corporation benefiting more than 25 persons, and not only that, the cost of water for the land that Standard retains will have to carry interest

because they did not receive water prior to the enactment of the Reclamation Reform Act.

Senator MELCHER. Now again Chevron, right?

Mr. MANOCK. That is correct.

Senator MELCHER. I think you might read this hearing record carefully to make sure that we are talking about the same conglomerate.

Mr. MANOCK. I am sure their advertising agency won't appreciate that!

Senator MELCHER. So as a corporation benefiting more than 25 people, their limit will not be 960 acres, it will be 600 acres?

Mr. MANOCK. That is correct.

Senator MELCHER. Mr. Lee, first of all I should say that no matter who owns the land in this generation or this century, we do have to do the best we can with the land. I think this is general philosophy I hope that is shared by everybody.

Mr. Lee, won't this breakup of the Chevron holdings provide the opportunity for your high school freshman son, to have an opportunity to farm in this area?

Mr. LEE. That is correct, because under the Reclamation Reform Act you can only own 960 acres, and so we feel that with the good water quality that you are even going to have farms as small as 80 to 157, 60 acres, but it would be highly intensive labor-type farms which would be vegetables or when the permanent crop situation turns around there would be some permanent crops there, so you are going to get lots, a lot of people interested in farming again in this area.

We have had people just in the last 20 years who just kept moving out of the area because farming was always in the red, so we are going to give a lot of opportunity to a lot of young people to get into farming, and it goes along with our junior college system which has a good facility, ag facility, and those kids actually do farming right there at the college, so it is going to be a good opportunity for a young farmer.

Senator MELCHER. I note I guess in bragging a little bit about Montana's size that California is even larger. I would also note that the San Joaquin Valley is probably the most productive area on earth. While we have surpluses now, there isn't enough food in the world It seems that we should hold onto that productive capability and recognize the goals of those of us in the United States, throughout the world, to provide food to the hungry and malnourished. Agricultural productivity safeguarded, must be enhanced and continued as an asset and a blessing.

I am glad to have your testimony. I think it was very pertinent to the case in point. It should be recognized as a reason for passing this bill.

Thank you both very much.

Mr. MANOCK. Thank you, Senator. Mr. Chairman, can I ask that the statement of Joe Summers which has been given to the committee—he is the district engineer—be made a part of the record?

That is a statement that is significant because he touches on the question of whether or not a drain problem will exist in this area, and it establishes the point which was asked earlier in the hearing

that the Government was concerned about, and that is that this will not add to the drainage problem in the San Joaquin Valley.

Senator MELCHER. It will be made a part of the record[1] not right at this point because I think it will follow in the proper sequence.

Mr. MANOCK. Thank you.

Senator MELCHER. Thank you both very much. Earlier a letter from the Navajo Nation from the director of the Navajo Nation, the Washington Office, was made part of the record in support of this bill.

I want to point out in conclusion of this hearing that there are other Indian tribes who would be benefited by passage of this Act who would be interested in this bill. I am aware of the possibility of several opportunities for Indian tribes in Montana to—look at the law and see whether they can't make some application for projects on their own land.

That concludes the hearing this morning, and the subcommittee will stand adjourned.

[Whereupon, at 12 noon, the hearing was adjourned.]

[1] See the appendix.

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT

SUBCOMMITTEE ON WATER AND POWER

OF THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES OF THE SENATE

IN SUPPORT OF S. 2643

I am Joseph B. Summers, a consulting engineer from Hanford, California. This statement is made as District Engineer for the Pleasant Valley Water District, located in western Fresno County in California. The Pleasant Valley Water District encompasses an area of 39,000 acres, of which approximately 32,000 are irrigable. The District was organized in the early 1960's for the purpose of contracting with the U.S. Bureau of Reclamation for a water supply. This water supply would be delivered through the Pleasant Valley Canal, a branch of the San Luis Canal. Although the canal and pumping plant were constructed with capacity for the Pleasant Valley Water District, the District is not yet able to receive the benefits of this facility and thus the U.S. Government is not recovering their full investment.

The lands of the District, mainly Class 1 and 2, have been irrigated since the early 1900's using groundwater. The groundwater supply is declining in level and deteriorating in quality. The current cropping pattern is principally cotton and grain; all salt tolerant crops. With the development of the water supply there will be a shift away from the grain crops into vegetables and other row crops.

The current cost of the existing groundwater supply is $70 per acre foot. This cost is based upon an average lift of 425 feet and it is declining at the rate of approximately 7 feet per year. Preliminary cost studies on a proposed distribution system combined with water delivery rates based upon the Reclamation Reform Act of 1982, indicate

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Testimony provided to Subcommittee on September 20, 1984

42-808 0 - 85 - 7

a water cost of approximately $54 per acre foot. Further studies indicate that the District will have an adequate payment capacity to meet these costs.

The Pleasant Valley Water District lies within a closed groundwater basin with unconfined aquifers. The groundwater basin has been severely overdrafted with an annual recharge of only 5,000 acre feet. With the introduction of a surface supply in lieu of groundwater pumping there will not be any drainage problems. It is the District's plan to incorporate the new surface supply with groundwater pumping to maintain a conjunctive use operation.

This statement summarizes the pertinent points excerpted from a report, entitled "Pleasant Valley Water District, Information Regarding Proposed Project", dated July 27, 1984. Copies of this report are being submitted, and we request it be included in the record.

PLEASANT VALLEY WATER DISTRICT

COALINGA, CALIFORNIA

Information Regarding
Proposed Project

July 27, 1984

Joseph B. Summers
Civil Engineer, Inc.
Hanford, California

BACKGROUND

The Pleasant Valley Water District (see Plate 1), located in western Fresno County in California's San Joaquin Valley, is seeking a water supply from the U.S. Bureau of Reclamation. The supply would be delivered through the Pleasant Valley Canal (Coalinga Canal) which has been constructed to provide an irrigation water supply to this area. The lands within the Pleasant Valley Water District have been fully developed to agriculture and have been irrigated since the early 1900's. The existing water supply is from groundwater pumping. Records indicate the pumping level is declining at an average rate of seven feet per year. There has also been a significant deterioration in the quality of this groundwater supply. The tabulation at the end of the report shows January, 1984 analyses for eleven wells within the District. Also shown in this tabulation is the quality of the San Luis Canal in the vicinity of the diversion point to the Pleasant Valley Canal.

The groundwater quality limits the crops that can be grown within the District. With a surface supply from the Bureau of Reclamation a much broader cropping pattern could be implemented with a greater return to the farmer. The tabulation on Page 2 projects the probable cropping pattern that would be instituted with the project.

An additional concern of the District is the economic impact placed upon the area by the devastating earthquake on May 2, 1983 (see Plate 1 showing earthquake damage to irrigation facilities). This disaster brought a financial decline to the Pleasant Valley area and more significantly to the community of Coalinga. It is the intent of the Pleasant Valley Water District to help restore the economic base by re-establishing agricultural production.

LAND USE

To evaluate the repayment capacity of the District a projected cropping pattern has been developed. This pattern was based upon landowner interview and from developments in adjacent irrigated areas of the Central Valley Project.-

Crops	EXISTING 1982 Acres	EXISTING Percent (%)	WITH PROJECT Projected Acres	WITH PROJECT Percent (%)
Cotton	9,000	23.1	13,000	36.1
Barley	14,000	35.9	1,000	2.8
Safflower	100	0.3	---	---
Wheat	5,500	14.1	---	---
Alfalfa Seed	900	2.3	3,000	8.3
Melons	---	---	4,000	11.1
Vegetables	---	---	9,000	25.0
Trees	---	---	2,000	5.6
Fallow	2,500	6.4	---	---
SUBTOTAL	32,000 Ac.		32,000 Ac.	
Oil Fields and Sloping Land	3,500	9.0	500	1.4
Creeks	1,900	4.9	1,900	5.3
Railroads, County Roads, Highways, and Farm Roads	700	1.8	700	1.9
Homesteads and Miscellaneous	900	2.2	900	2.5
TOTAL	39,000 Ac.	100.0%	36,000 Ac.	100.0%

COST OF EXISTING SUPPLY

An analysis was made to determine the cost of the existing supply derived from groundwater pumping using pump tests provided by landowners and Pacific Gas and Electric Company. It was determined that the average lift of water in the District was 425 feet. At the current power charge for agricultural pumping, this amounts to a cost of $ 48./A.F. Assuming the cost for a pump, motor and 1,000 foot well is $130,000, and with a life of 30 years at an amortized rate of 11%, the replacement cost would be $ 22./A.F. The total combined cost of power and replacement is therefore $ 70./A.F. In addition to this cost of lifting the water there is also the cost of pressurizing the system for those lands that are sprinkler irrigated. Sprinkler irrigation is common in the area now due to the limited supply of water. It is probable that with the advent of a surface supply from the Pleasant Valley Canal that most sprinkling would be abandoned for the more conventional type of irrigation to further reduce the cost of water application.

WATER REQUIREMENTS

An analysis was made of the District's water needs based upon the projected cropping pattern on Page 2.

The combined values of evapotranspiration, precipitation, and the leaching requirement indicated a water need of 2.9 A.F. per acre. The following tabulation summarizes the water requirements.

Water Requirement per acre	=	2.9	A.F.
Total Water Requirement 2.9 AF/Ac x 32,000 Ac	=	92,800	
	Say	93,000	A.F.
Groundwater Supply Safe Yield	=	5,000	A.F.
Project Water Supply Required	=	88,000	A.F.

PROJECT COST

A project cost analysis has been made for the proposed irrigation project with funds derived by a loan from the Bureau of Reclamation in accordance with Public Law 130 and by selling assessment bonds for the local cost share. For the analysis, a bond issue for 30 years at 11% interest was assumed. The federal loan will be in compliance with the Reclamation Reform Act of 1982. It is assumed that all lands would sign recordable contracts within the five year period. It was further concluded that the repayment period would be 30 years as determined by criteria developed for the loan program. Based on discussions with officials of the State of California, Department of Water Resources, it is possible to rent the State facilities under certain conditions to convey the water to the San Luis Reservoir complex and thus bypass the capacity restriction in the Delta Mendota Canal. The following tabulation summarizes the costs associated with the project.

Annual Supply	88,000 A.F.
Total Project Cost	$42,000,000 ($37,000,000 from PL-130 Loan)
Repayment Period	30 years
USBR Water Charge	$ 16./A.F. to qualified recipients with delivery to Elevation 700
Power Cost	Pacific Gas and Electric PA-1 schedule effective January 1, 1984 for delivery above Elevation 700.

	Total Cost	Annual Cost	Cost per A.F.
Total Estimated PL 130 Loan	$ 37,000,000	1,233,000	$ 14.01
District Contribution (Bond Issue, 11%, 30 years)	$ 5,000,000	575,100	6.54
Annual Power Charge			6.00
Annual USBR Charge			16.00
State of California Wheeling Charge			8.65
District O & M Costs			3.00
Total Annual Costs per A.F.			$ 54.20

REPAYMENT ANALYSIS

The repayment analysis of lands within the District was calculated based upon the projected cropping pattern on Page 2. The payment capacity for the various crops as footnoted on the following tabulation was based upon data obtained from the Mid-Pacific Regional Office of the Bureau of Reclamation in Sacramento, California.

Crop	Acres	Payment Capacity[1/] $/Acre	Payment Capacity[1/] Total
Cotton	13,000	$ 90.	$ 1,170,000.
Barley	1,000	25.	25,000.
Alfalfa Seed	3,000	65.	195,000.
Melons	4,000	355.	1,420,000.
Vegetables	9,000	190.	1,710,000.
Trees	2,000	340.	680,000.
	32,000 Ac.		$ 5,200,000.

Average Payment Capacity per Acre $\frac{\$\ 5,200,000.}{32,000\ Ac.} = \$162.50$

Say $165/Ac.

[1/] Unit values based on 1982 Farm Budget Repayment for water payment capacity from U.S.B.R., Sacramento.

The tabulation indicates that the lands within the District will have a repayment capability of $165 an acre to be applied towards the purchase and delivery of a water supply.

The following tabulation summarizes the various costs.

Payment capacity per acre = $ 165

Payment Capacity/per acre foot = $165 / 2.9 = $ 56.90/A.F.

Project water cost = $54.20/A.F.

Current groundwater supply cost = $70.00/A.F.

A review of this tabulation indicates that the current water cost exceeds the projected payment capacity. The reason is that the current cropping pattern in the District does not include the more cost intensive crops in the projected cropping pattern and the current water use is 1.7 A.F./acre due to the limited supply. The total annual cost for the District's water supply will therefore be as follows:

Project Water		
88,000 A.F. x $54.20/A.F.	=	$4,769,600.
Groundwater		
5,000 A.F. x $70.00/A.F.	=	350,000.
		$5,119,600.

This compares with the payment capacity of $5,200,000. from page 5.

DRAINAGE

Pleasant Valley is a closed ground water basin with boundaries that nearly coincide with the boundaries of the Pleasant Valley Water District (see on Plate 2). The only outlets to the ground water basin are the Arroyo Pasajero Gap between the Anticline Ridge and the Guijarral Hills and the Polvadero Gap between the Guijarral Hills and the Kettleman Hills. There are subsurface barriers in both gaps which restrict the flow of water to the east. Due to the severe overdraft of the ground water no flow has passed these barriers for many decades. The geology of the ground water reservoir in Pleasant Valley is that of unconfined aquifers several thousand feet in thickness. Numerous investigations by Federal agencies and local organizations substantiate this geological condition. A 1969 study by the Standard Oil Company of California (Chevron) developed a geological cross section as indicated on Plates 3 & 4.

The Bureau of Reclamation in an unpublished preliminary report of Pleasant Valley on land classification makes the following statement:

> *The surface soils of the district are predominantly recent alluvial soils derived from the sedenentary rock parent material of the surrounding hills. These soils are deep, light to medium textured and very gently sloping to slightly undulating in topography. They are for the most part free of harmful salts but there are a few areas that are slightly affected. The Bureau Land Classification places most of these soils in land class 1 or 2.*

The report further states:

> *There does not appear to be any wide-spread sheets of clay or silt which act as barriers to water movement and would create large bodies of semi-perched or confined ground water....*

The Bureau of Reclamation further analyzed the problems of salt balance within the District. It was their conclusion that if there was no artificial recharge to the ground water basin there would be sufficient space available that:

> *...it would be 60-70 years before shallow drains could be effective in providing outflow for salt balance....*

The Bureau further considered the concept of ground water pumping to maintain a salt balance. This ground water pumping would be only to remove any highly saline water from the ground water basin for disposal ultimately through a drainage facility or other means. The Bureau stated that under this concept there might be a need for some drainage disposal within a time frame of 25 to 50 years.

The current plans of the Pleasant Valley Water District would eliminate this latter need. The District intends to irrigate a smaller area than was considered by the U.S.B.R. in 1964 and also use a conjunctive supply. The current plan is to irrigate an area of approximately 32,000 acres with an imported water supply from the Bureau of Reclamation together with ground water pumping. Minimum pumping would be 5,000 acre feet per year, which is the safe yield of the ground water basin. An additional amount would also be pumped equal to the waters lost by deep percolation past the root zone. This should contribute another 5,000 to 10,000 acre feet per year to the District supply. Calculations have been made to determine the amount of available storage as a result of the overdraft upon the ground water supply. Based upon a specific yield of 10.3% and assuming available space of approximately 200' above the current ground water level, this would provide additional storage of 800,000 acre feet. Assuming the deep percolation past the root zone was not pumped, a

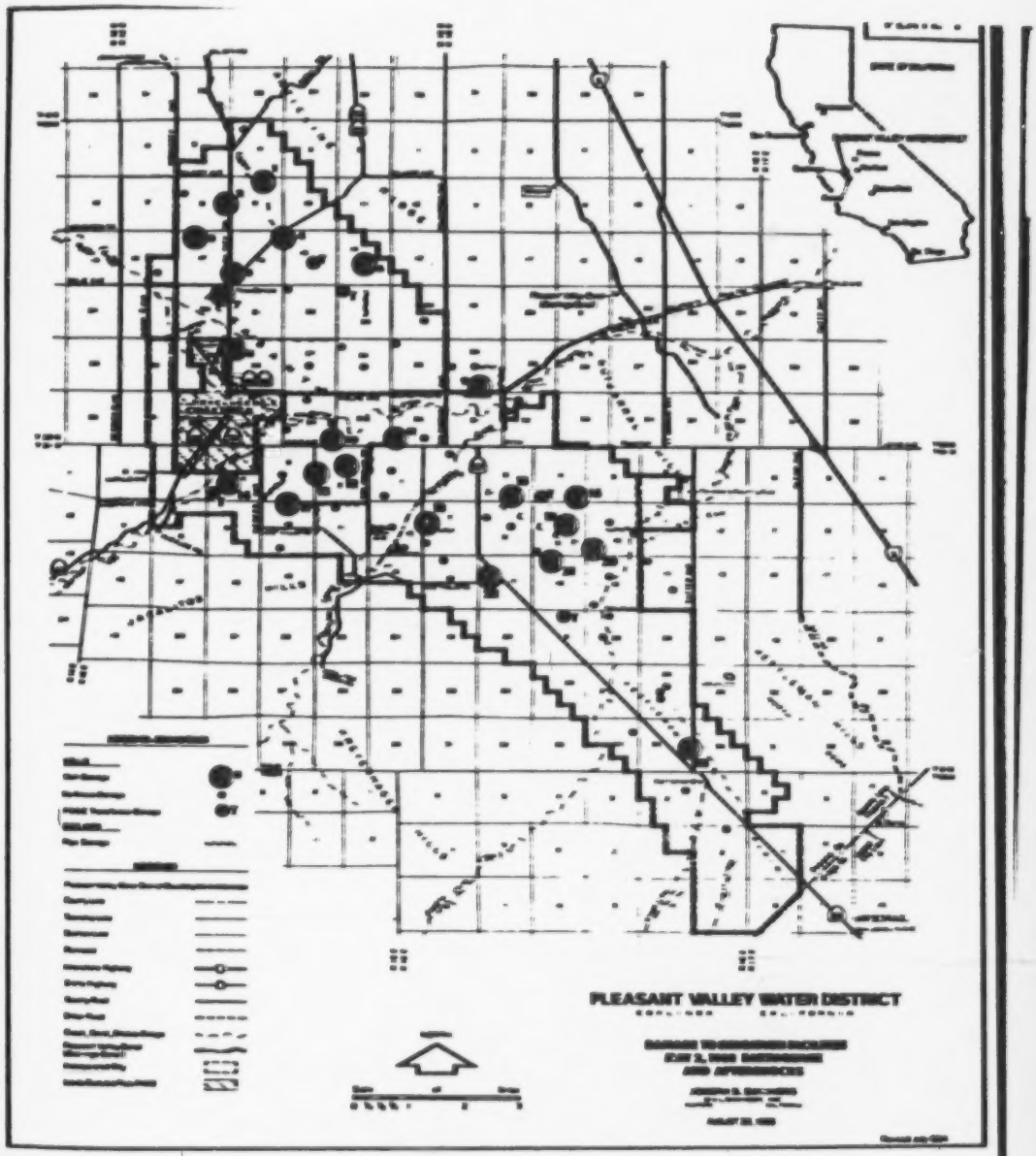
maximum of 10,000 acre feet per year would enter the groundwater reservoir. With these conditions flow across the subsurface barriers might commence in 80 years. With a conjunctive operation of ground water together with the surface supply there does not appear to be any drainage problems that would impact the District lands within the life of a proposed repayment contract.

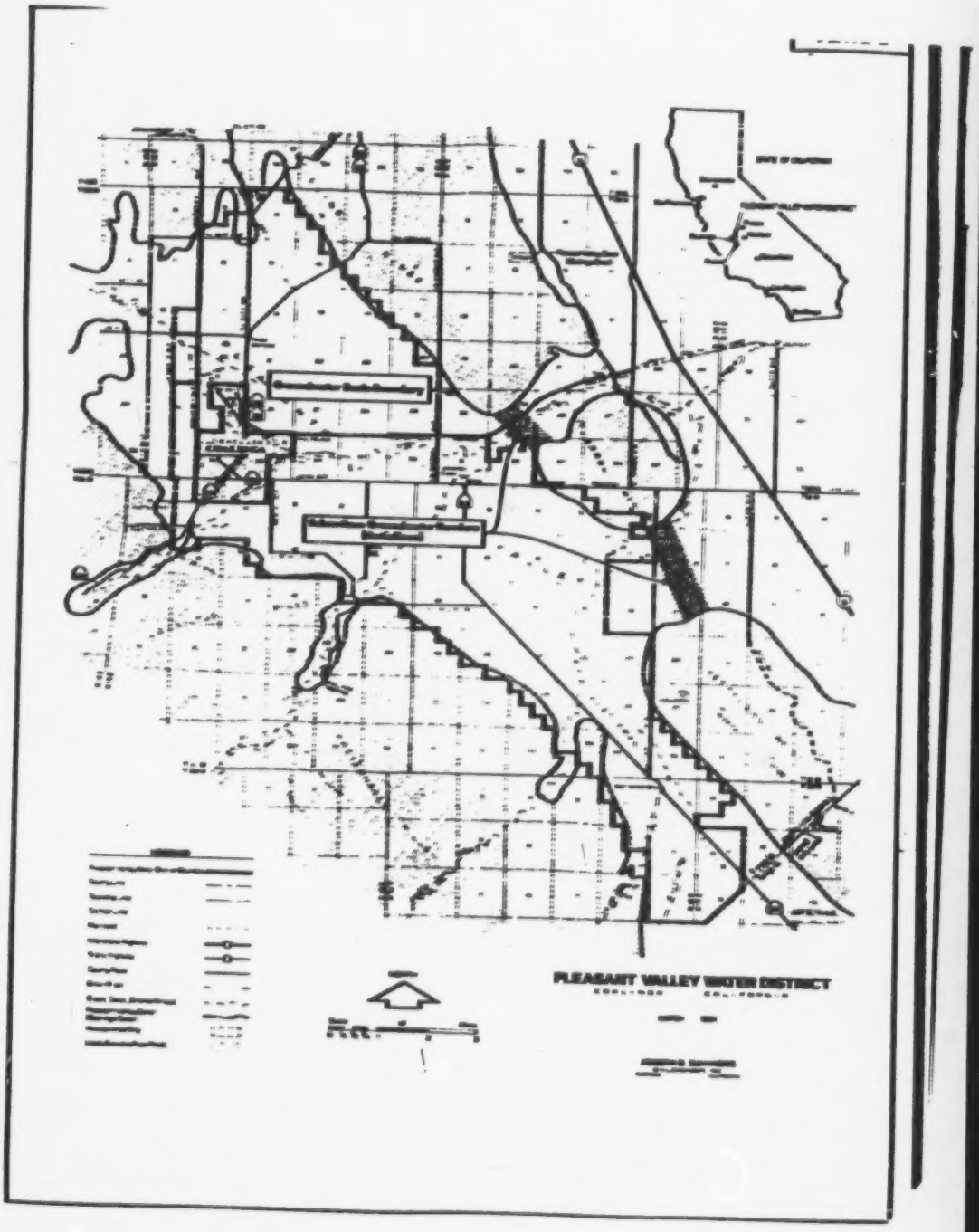
In the event that under the worst scenario a drainage problem did arise, the most feasible solution would be disposal by solar evaporation within the District. The proposed San Luis Drain would be over 20 miles to the east of the District. The cost of conveying any drain water to this proposed facility would be in excess of six million dollars and would not be a viable alternative to local disposal by evaporation.

OTHER CONSIDERATIONS

There are other aspects of providing a water supply to the Pleasant Valley Water District from the existing Pleasant Valley Canal which must be considered. The canal has been constructed with design capacity to serve lands within the Pleasant Valley Water District. The fact that these lands are unable to use this supply does not permit the Bureau of Reclamation to commence recovery of the investment.

Furthermore, in the event that a solution is developed for the problem of flood flows in the Arroyo Pasajero which currently impound against the San Luis Canal in the vicinity of Huron, it is anticipated that a portion of the run-off could be used for recharge purposes within the service area of the Pleasant Valley Water District. The District has stated on several occasions they are willing to participate in such a recharge program.


PLEASANT VALLEY WATER DISTRICT


PLEASANT VALLEY WATER DISTRICT

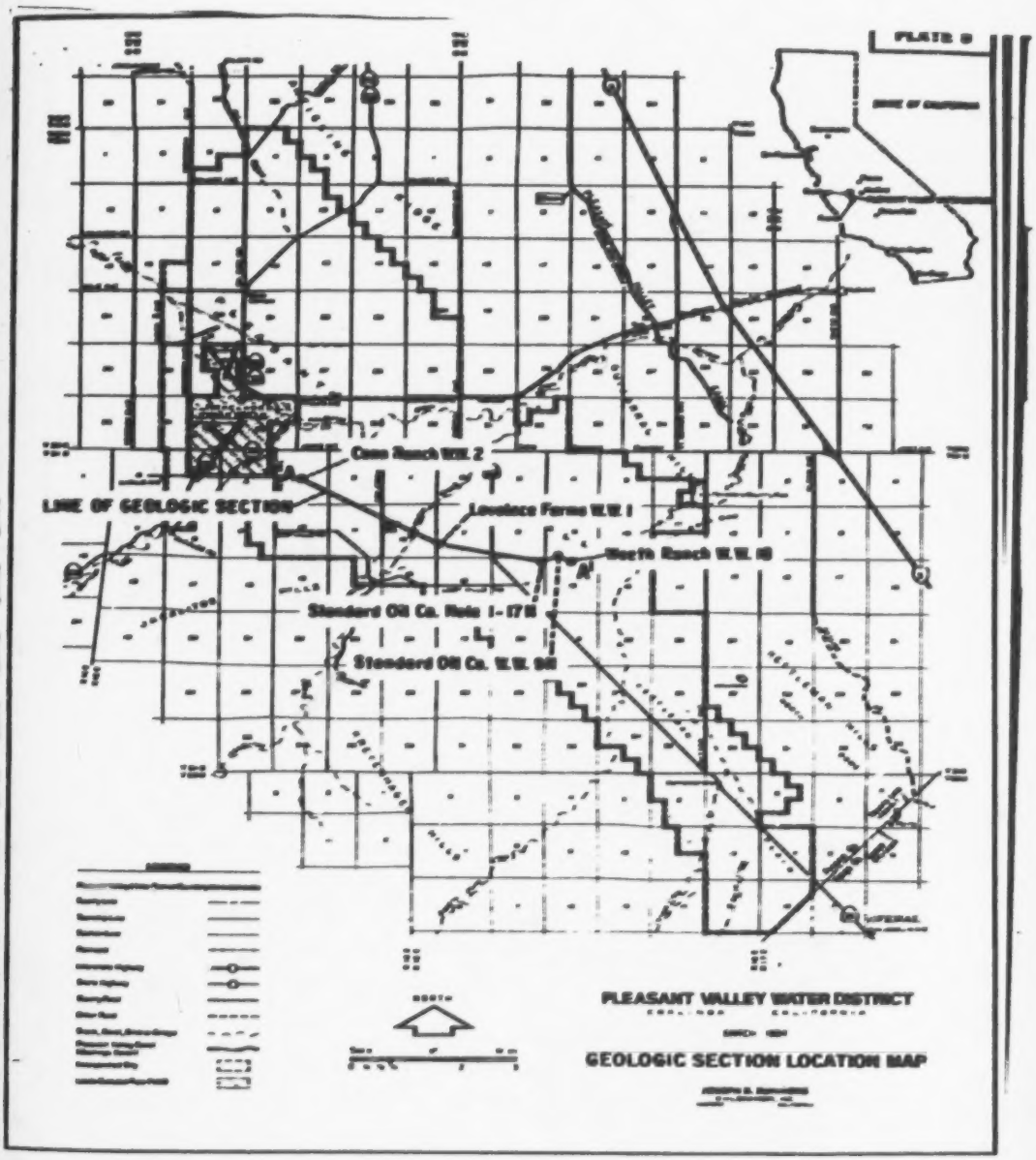
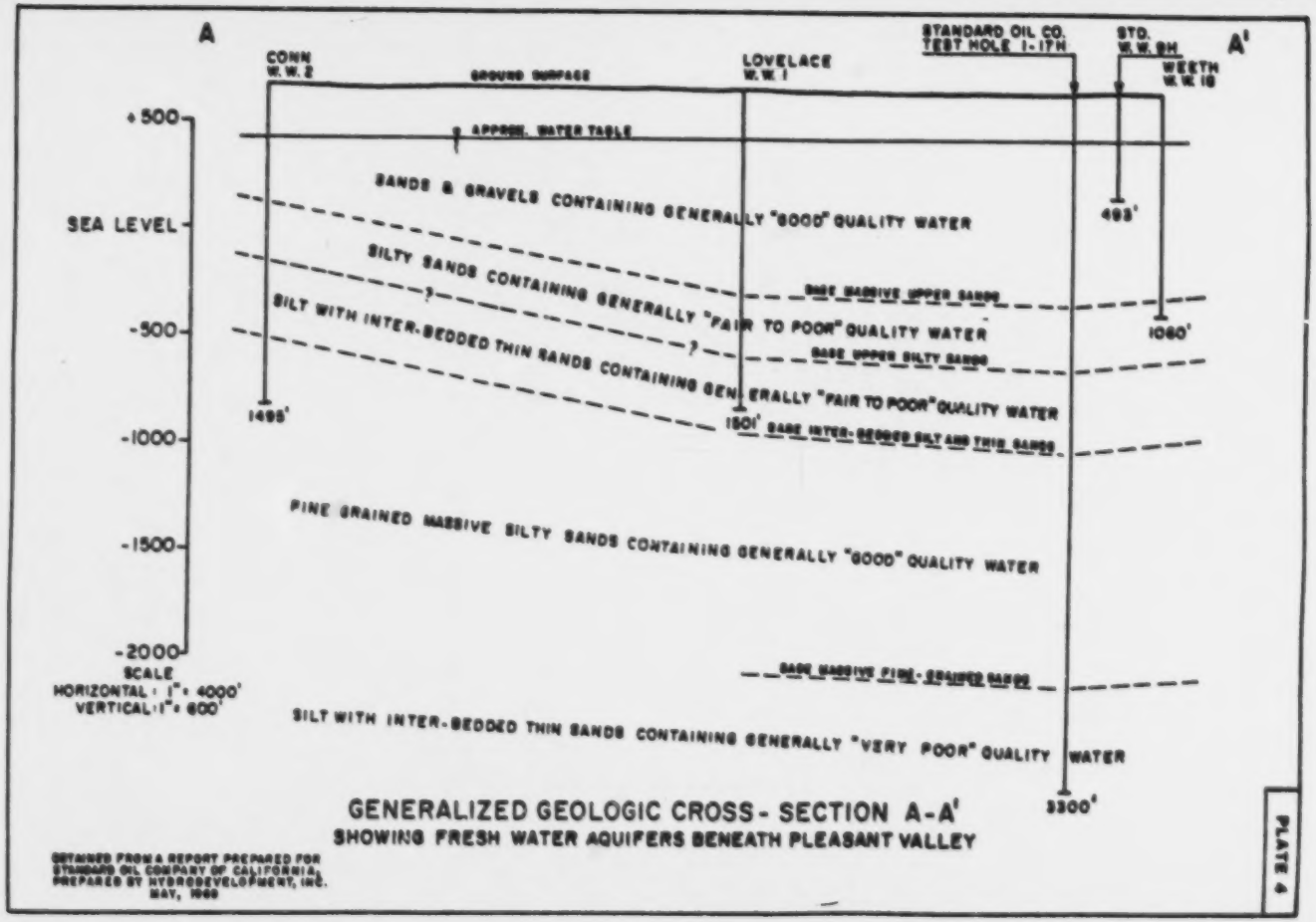


PLATE 8
LINE OF GEOLOGIC SECTION
Standard Oil Co. Rada 1-17 B
PLEASANT VALLEY WATER DISTRICT
GEOLOGIC SECTION LOCATION MAP



GENERALIZED GEOLOGIC CROSS-SECTION A-A'
SHOWING FRESH WATER AQUIFERS BENEATH PLEASANT VALLEY

OBTAINED FROM A REPORT PREPARED FOR STANDARD OIL COMPANY OF CALIFORNIA, PREPARED BY HYDRODEVELOPMENT, INC. MAY, 1960

PLATE 4

Pleasant Valley Water District
Agricultural Wells Irrigation Analyses[1/]

January 1984

Determination	Sample Location Number 1	2	3	4	5	6	7	8	9	10	11	San Luis[2/] Canal
Bicarbonate (HCO_3)	156	166	121	202	202	151	272	156	118	149	144	---
Boron (B)	2.74	2.34	0.54	2.20	2.38	1.1	1.16	0.73	0.68	0.66	0.74	0.2
Calcium (Ca)	63	98	180	120	125	185	110	100	110	36	100	17
Chloride (Cl)	151	191	166	136	181	184	111	73	67	33	41	38
Conductivity µmhos/cm @ 25°C	1985	2260	2720	2310	2780	2910	2060	1658	1535	1185	1553	313
Magnesium (Mg)	83	55	165	81	85	145	63	75	60	14	65	8
pH (Std. Units)	7.8	7.9	7.9	7.9	7.7	7.8	8.0	7.8	7.8	8.0	7.7	7.8
Total Dissolved Solids (TDS)	1441	1642	2378	1822	2179	2489	1556	1267	1231	804	1215	182
Sodium (Na)	265	325	290	305	385	340	285	210	150	230	165	31
Sulfate (SO_4)	800	875	1380	1075	1250	1400	850	740	720	625	700	31
Percent Sodium:	53.4	59.9	35.8	51.2	55.7	41.1	53.8	44.8	38.5	77.2	41.0	46
Sodium Adsorption Ratio:	5.1	6.5	3.8	5.3	6.5	4.6	5.4	3.9	2.9	8.2	3.2	1.8
Classification: [3/]	C3-S2	C4-S2	C4-S1	C4-S2	C4-S2	C4-S2	C3-S2	C3-S1	C3-S1	C3-S2	C3-S1	C2-S1

1/ All units milligrams/liter unless otherwise noted.

2/ 1982 Average Water Quality of the San Luis Canal.

3/ From the U.S. Department of Agriculture Handbook No. 60.

RESOLUTION NO. 1638

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COALINGA SUPPORTING THE REQUEST OF THE PLEASANT VALLEY WATER DISTRICT TO BE INCLUDED IN THE FEDERAL SERVICE AREA AND TO RECEIVE BUREAU OF RECLAMATION WATER.

BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF COALINGA:

WHEREAS, the Pleasant Valley Water District is in need of an adequate supply of good quality water; and

WHEREAS, the District is requesting that it be included in the Federal Service Area and that it receive Bureau of Reclamation water;

NOW THEREFORE, BE IT RESOLVED that the City Council of the City of Coalinga supports the request of the Pleasant Valley Water District and urges the Water Advisory Committee to recommend to the Fresno County Board of Supervisors that it also support the Pleasant Valley Water District in its efforts to be included in the Federal Service Area and to receive Bureau of Reclamation water.

BY ORDER OF THE CITY COUNCIL OF THE CITY OF COALINGA.

Dated: This 22nd day of February, 1983.

Keith Ferrier
Mayor

Johnnie A. Quinney
City Clerk

I hereby certify that the foregoing Resolution is an exact copy of Resolution No. 1638 adopted by the City Council of the City of Coalinga at a regular meeting held on the 22nd day of February, 1983.

Johnnie D. Twining
City Clerk

Resolution #R-83-289

BEFORE THE BOARD OF SUPERVISORS

OF THE

COUNTY OF FRESNO, STATE OF CALIFORNIA

IN THE MATTER OF THE)
PLEASANT VALLEY WATER) RESOLUTION
DISTRICT)

WHEREAS, the Pleasant Valley Water District is in need of an adequate supply of good quality irrigation water, without which the area will eventually return to desert and will be unable to continue its agriculture activities; and

WHEREAS, the District is requesting the U. S. Bureau of Reclamation that it be included in the Federal Service Area and that it receive a long-term contract for Bureau of Reclamation water; and

WHEREAS, the Pleasant Valley Water District and the City of Coalinga have adopted resolutions requesting the support of the Fresno County Water Advisory Committee in recommending to the Board of Supervisors that the Board of Supervisors support the District's efforts; and

WHEREAS, the Fresno County Water Advisory Committee has endorsed the District's request and recommends that the Board of Supervisors also support the Pleasant Valley Water District in its efforts to secure said water supply.

NOW, THEREFORE, BE IT RESOLVED that the Fresno County Board of Supervisors hereby supports the District's efforts in securing a long-term contract for Bureau of Reclamation water, and its efforts to be included in the Federal Service Area, and hereby directs the Director of Resources and Development to provide such assistance when requested by the District.

OF FRESNO
CALIFORNIA

THE FOREGOING was passed and adopted by the following vote of the Board of Supervisors of the County of Fresno this 14th day of June, 1983, to-wit:

AYES: Supervisors Levy, Koligian, Conrad, Ramacher, Reich

NOES: None

ABSENT: None

Jeff Reich
CHAIRMAN, Board of Supervisors

ATTEST:

Allan H. Colman, Clerk
of the Board of Supervisors

By Elaine Kerchner
Deputy

FILE # 1436

AGENDA # 25

RESOLUTION # R-83-289

COUNTY OF FRESNO
FRESNO, CALIFORNIA

Statement of

HARRY CRUYE AND FRED C. COREY

Chairman and Consultant

Gila River Farms

Gila River Indian Community

on S.1981

To Amend The Small Reclamation Projects Act

Before The

Subcommittee on Water & Power

Committee on Energy and Natural Resources

UNITED STATES SENATE

September 20, 1984

GILA RIVER FARMS

Phone 562-3319, 836-2671, 963-7739

P. O. BOX 397 - SACATON, ARIZONA 85247

September 26, 1984

Senator Don Nickles, Chairman
Subcommittee on Water and Power
Committee on Energy and Natural Resources
U. S. Senate
Washington, D. C. 20510

Dear Mr. Chairman, Members of the Subcommittee:

On behalf of the GILA RIVER FARMS of the GILA RIVER INDIAN COMMUNITY, we are pleased to submit additional testimony to be added to the record of the S.1981 hearing held on September 20, 1984, which will amend the Small Reclamation Projects Act to increase the appropriation ceiling by $600 million.

With our proposed exclusion amendment that Indian loan applicants be considered under the present Small Reclamation Projects Acts of 1956, we strongly recommend enactment of S.1981 and its companion bill in the House, H.R. 4444.

Gila River Farms does anticipate additional loans in the near future upon receipt of the Central Arizona Project water and does agree with the Indian and non-Indian interest in the necessity of increasing the ceiling limit for the Small Reclamation Projects Act of 1956. For over 10 years this has been a valuable tool in assisting the Reservation in developing its water resources and rehabilitating their system built in the 1930's, and has been a high employment and training program on the Reservation for Indian labor.

Gila River Farms is requesting that an exclusion amendment be included for Indian applications to be considered and approved under the present Small Reclamation Projects Act of 1956. This exclusion of Indian projects from any other proposed amendments, then would enable each Indian loan application to be considered on a case by case basis for Category I or Category II as has been the case in the past.

In general, Category II requires approximately 10% contribution while Category I requires a 20-25% contribution by the applicant. Gila River Farms has reached a point that they cannot afford a higher contribution than what is

required by the Category II requirements. Funds required for any contribution have to come out of the Farms' operating budget on a year by year basis along with many other financial obligations that Gila River Farms has, such as: repayment of the present Reclamation loan at $445,673 per year, annual farming costs of over $6-8,000,000 to farm over 10,500 acres of cropland, and a fixed equipment cost of over $3,000,000 financed on a short-term basis.

Gila River Farms uses their local credit to finance their farming operations on a short-term basis. Gila River Farms have no source of long-term funding other than the Federal Government through either the loan process from the U. S. Bureau of Reclamation or the grant process through the Bureau of Indian Affairs.

Gila River Farms does not have the private bond market as a funding source since the land on the Reservation is held in trust by the United States Government for the Indian Community and cannot be sold by the Tribe or any of its members, nor can the Tribe mortgage the land or use the land as collateral for acquiring any private or municipal bonds or loans.

In lieu of borrowing money through the loan program of the Bureau of Reclamation, Gila River Farms could fund a portion of their Indian Distribution System through the Central Arizona Project Indian Distribution System funds which in effect is a grant. Additional funds for any rehabilitation on the Reservation could be built under the Bureau of Indian Affairs grant process and taking their turn for appropriations through Congress through the BIA budget process. Historically this has been a rather slow and timely process of which their systems continue to deteriorate and be in need of costly maintenance waiting for such funds.

Indian tribes choosing the loan route rather than the grant process should be commended and should not be subject to as many of the constraints as a non-Indian irrigation district, for many of the reasons previously mentioned.

In summary, the Gila River Farms of Gila River Indian Community in Sacaton, Arizona, believe that the Small Reclamation Projects Act of 1956 has for over 10 years been a valuable tool in assisting its Reservation in developing their water resources and rehabilitating their system built in the 1930's. We believe that it is extremely important that this program continues. We strongly urge that your Committee give favorable consideration to S. 1981 with certain exclusions as previously mentioned and work for its enactment this session of Congress.

Gila River Farms can support amendments on market rate interest charged on portions of the loan allocated to municipal industrial water facilities, hydroelectric power, fish and wildlife enhancement, and public recreation. Gila River Farms cannot support limiting Federal funding through the loan program on crops on lands that grow surplus crops. Gila River Farms cannot support any amendment to include an interest charge on the portion of loan that is for the agricultural or irrigation portion of the project. Gila River Farms can support Category II or III classification for Indian tribes for an amount of approximately 10% contribution and strongly supports the exclusion amendment as proposed in this statement.

Respectfully submitted,

Harry Cruye

Harry Cruye, Chairman
Gila River Farms

Fred C Corey

Fred C. Corey, P.E.
Franzoy Corey Engineering Co.

cc: Senator Goldwater
Senator DeConcini
Congressman Udall
Congressman McCain
Congressman Stump
Congressman McNulty
Congressman Rudd

September 14, 1984

DI210.60

Senator Don Nickles
Water and Power Subcommittee
Senate Energy and Natural
Resources Commission
SD360 Senate Office Building
Washington, D.C. 20515

Dear Senator Nickles:

We appreciate the longstanding support from the Congressional committees for the Bureau of Reclamation's (BuRec) loan program under the Small Reclamation Projects Act. We again ask for your support for S. 1981, a simple amendment to extend the current authorization ceiling of $600 million (accumulated over 27 years) so that this worthwhile program can continue in a timely manner.

Applications that are now under consideration by the Commissioner of Reclamation and that have a high probability for approval this year will cause the existing limit to be exceeded when added to the previous 27 years of accumulated projects. Based on many years' experience in dealing with various federal funding agencies, I believe the BuRec loan program to be one of the best, and that it is administered by BuRec in a highly efficient manner.

CH2M HILL is a multidiscipline consulting engineering firm of more than 2,000 professional and support personnel. Our 37 offices throughout the U.S. include an office in Tulsa, Oklahoma. Over the years we have helped more than 20 local districts plan, design, and construct projects under the program in six of the 17 western states. We think this is an excellent program, one of the best the BuRec has going for it now. We feel it has enjoyed the support of Congress for so many years for the following reasons:

- Project cost sharing currently averages about 25 percent.

- The majority of the projects are for rehabilitation of old systems, resulting in the conservation of water and energy.

- The projects are planned and initiated by the local districts, which are required to fund their feasibility studies and loan applications.

- Repayment is 100 percent with interest on benefits to M&I use, excess lands, and power generation.

- In 27 years of operating experience, there have been no defaults on loans.

- The BuRec administration of the program is efficient. With the help of Congress, the program has provided timely assistance to local districts.

- The private sector does the planning, design, and construction contract administration for the district, with review by BuRec.

We again ask the support of your committee for S. 1981 and request this be made a part of the record for the hearing scheduled September 20, 1984.

Sincerely,

Murry Fleming

Murry L. Fleming
Office Manager

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